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Nos. 87-6257, 87-6321

In the Supreme Court
OF THE
United States

OCTOBER TERM, 1989

METRO-GOLDWYN-MAYER INC., a Delaware Corporation, MGM GRAND HOTEL, INC. a Nevada corporation, and DONN ARDEN,
Petitioners,
vs.
FRANK MUSIC CORP., ROBERT WRIGHT, GEORGE FORREST, ANNE LEDERER (as Executrix of the Will of CHARLES LEDERER), LUTHER DAVIS, and EDWIN LESTER,
Respondents.

On Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

a. Whether the Ninth Circuit engaged in *de novo* fact-finding in derogation of the mandates of Rule 52 of the Federal Rules of Civil Procedure;

b. Whether the Ninth Circuit erred in mandating an award of prejudgment interest to a prevailing plaintiff in an action for infringement of plaintiff's copyright.

Supreme Court Rule 28.1 (December 1989) Notice:

In 1980 petitioner Metro-Goldwyn-Mayer Inc. changed its name to MGM, Inc. and spun its hotel operations off to a newly-formed corporation known as MGM Grand Hotels, Inc. ("MGM Grand"). Simultaneously therewith, petitioner MGM Grand Hotel, Inc. changed its name to MGM Grand Hotel, Las Vegas, Inc. and merged into MGM Grand. In April 1986, MGM Grand merged with Bally's Grand, Inc. ("BGI"), a wholly-owned subsidiary of Bally Manufacturing Corporation ("BMC"), with the resulting corporation known as BGI. BGI has no non wholly-owned subsidiaries or affiliates. BGI's immediate parent corporations are Bally's Intermediate Sub Nos. 1 through 6, inclusive, all of which are the wholly-owned subsidiaries of Bally's Intermediate Sub, Inc. Bally's Intermediate Sub, Inc. is the wholly-owned subsidiary of BMC. Accordingly, BMC is BGI's ultimate parent. MGM, Inc. has no ownership or other interest in BGI, is not otherwise affiliated with BGI, and has no interest in this proceeding.

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PETITION FOR A WRIT OF CERTIORARI

INTRODUCTORY STATEMENT

This case concerns the integrity of the federal appellate process. Specifically, the primary issue presented is whether the Ninth Circuit may, in derogation of Rule 52(a) of the Federal Rules of Civil Procedure, disregard the District Court's well-supported factual findings in order to reach a result that, in the Ninth Circuit's opinion, is "fairer."

This is an action for infringement of plaintiffs' copyrights in the dramatico-musical play "Kismet." In the good faith but ultimately erroneous belief that their use of material from "Kismet" was permitted under an ASCAP license, defendants incorporated certain elements — a mere six minutes of music — from plaintiffs' play into one portion (Act IV) of their Las Vegas review "Hallelujah Hollywood," staged at the lavish Ziegfeld Theatre at the MGM Grand Hotel. Because Act IV contained both infringing and non-infringing elements, the District Court considered the relative value of both defendants' and plaintiffs' contributions to Act IV's profitability and concluded that 25% of Act IV's profits should be allocated to the plaintiffs. In addition, the District Court found that, where plaintiffs failed to prove any actual injury or damages, an award of $343,724, based upon an allocation of those profits attributable to plaintiffs' contributions to Act IV, was "adequate" to satisfy the purposes of the Copyright Act such that an award of statutory "in lieu" damages was unnecessary.[1]

The Ninth Circuit, however, disagreed. Specifically, the Ninth Circuit found that plaintiffs should have been

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[1]The District Court had originally awarded plaintiffs $22,000, an amount it found to be "a fair approximation of the profits of Act IV attributable to the infringement." The Ninth Circuit held this award to be "grossly inadequate."

awarded not 25%, but rather *75%* of Act IV's profits. The Ninth Circuit also found that, apparently as a factual matter, neither the District Court's award nor its own "fairer" award of roughly $1.2 million was sufficient to satisfy the purposes of the Copyright Act and thus ordered the District Court to make an additional award of prejudgment interest.

In brief, the Ninth Circuit in this case engaged in *de novo* fact-finding in plain derogation of both the mandates of Federal Rule of Civil Procedure Rule 52 and the norms of appellate practice. Such appellate fact-finding not only undermines public confidence in the courts, but also encourages litigants to appeal all adverse decisions, no matter how well founded, in the hope that "new" appellate fact-finders will see things differently.

The secondary issue presented by this case concerns the availability an award of prejudgment interest to a prevailing plaintiff in an action for infringement of his copyright. The Sixth Circuit has reasoned that because the Copyright Act of 1976 neither prescribes nor proscribes an award of prejudgment interest, such an award is discretionary, to be made only in those rare circumstances when the primary damage award is insufficient to satisfy the purposes of the Copyright Act. *Robert R. Jones Assoc., Inc. v. Nino Homes*, 858 F.2d 274, 282 (6th Cir. 1988) (attached hereto as Appendix F).[2] The Ninth Circuit here, however, essentially concluded that prejudgment interest must be awarded whether or not the primary award is sufficient to satisfy the purposes of the Copyright Act. *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 886 F.2d 1545, 1551-52 (9th Cir. 1989)

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[2] *Nino Homes* was decided under the present Copyright Act, specifically 17 U.S.C. § 504. The instant action is based upon section 504's predecessor, 17 U.S.C. § 101 (1970).

(attached hereto as Appendix E). There thus exists an irreconcilable difference of opinion on this issue between the Ninth and Sixth Circuits.

Accordingly, petitioners respectfully request that this Court grant a writ of certiorari to review the opinion of the Ninth Circuit issued in this case. Certiorari review is both appropriate and necessary for a number of reasons. First, in engaging in *de novo* fact-finding, the appellate panel has so far departed from the accepted and usual course of judicial proceedings that exercise of this Court's supervisory powers is warranted. Second, in holding that an award of prejudgment interest is mandatory, the Ninth Circuit opinion conflicts with a prior decision out of the Sixth Circuit. Such conflicts ill-serve the purposes of the Copyright Act, an enactment of national scope for which uniform application is essential.

I

OPINION BELOW

The opinion of the Court of Appeals for the Ninth Circuit is attached to this petition as Appendix E. The underlying decision of the District Court for the Central District of California is attached to this petition as Appendix D.

II

JURISDICTION

The opinion of the Court of Appeals for the Ninth Circuit was filed on September 27, 1989. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1). Jurisdiction in the District court was pursuant to 28 U.S.C. § 1338(a). Jurisdiction in the Ninth Circuit Court of Appeals was pursuant to 28 U.S.C. § 1291.

III

CONSTITUTIONAL/STATUTORY PROVISIONS INVOLVED

This appeal does not directly implicate any provision of the United States Constitution. The statutes primarily implicated are 17 U.S.C. § 101 (1970) and 17 U.S.C. § 504, attached hereto as Appendices G and H, respectively.

IV

REASONS FOR GRANTING THE WRIT

The writ sought by this petition should be granted in order to review a decision from the Ninth Circuit that has so far departed from the accepted and usual course of judicial proceedings as to call for an exercise of this Court's supervisory powers. Rules of the Supreme Court of the United States, Rule 17.1(a). Further, the Ninth Circuit's opinion in this case misconstrues material points of fact and law and conflicts with another opinion in this area of the law from the Sixth Circuit. *Id.; see Robert R. Jones Assoc., Inc. v. Nino Homes,* 858 F.2d 274 (6th Cir. 1988).

V

COURSE OF PROCEEDINGS

Plaintiffs initiated this action on April 5, 1976. The District Court issued its Memorandum Decision on October 24, 1983 (attached hereto as Appendix A). Both parties appealed. The Ninth Circuit issued its opinion in *Frank Music Corp. v. Metro-Goldwyn-Mayer Inc.*, 772 F.2d 505 (9th Cir. 1985) (attached hereto as Appendix B), on September 23, 1985. After the Ninth Circuit clarified its opinion (Appeal Nos. 86-5692 and 86-7550, January 13,

1987, attached hereto as Appendix C), the District Court's second Memorandum Decision issued on July 21, 1987 (attached hereto as Appendix D). Both plaintiffs and defendants appealed. The Ninth Circuit issued its second opinion in *Frank Music Corp. v. Metro-Goldwyn-Mayer Inc.*, 886 F.2d 1545 (9th Cir. 1989), on September 27, 1989 (attached hereto as Appendix E), from which opinion the instant certiorari petition is based.

VI

STANDARDS OF REVIEW

The District Court's findings of fact must be sustained unless clearly erroneous. *Northwest Acceptance Corp. v. Lynnwood Equipment, Inc.*, 841 F.2d 918, 922 (9th Cir. 1988); *McCulloch v. Albert E. Price, Inc.*, 823 F.2d 316, 322 (9th Cir. 1987). The Ninth Circuit's holding that the District Court must make an award of prejudgment interest to a prevailing plaintiff in an action for copyright infringement is subject to *de novo* review because it raises a question of statutory interpretation. *Valazquez v. National Presto Indus.*, 884 F.2d 492, 496 (9th Cir. 1989); *United States v. Youpee*, 836 F.2d 1181, 1182 (9th Cir. 1988).

VII

STATEMENT OF FACTS

A. Background.

This action concerns MGM Grand Hotel, Inc.'s ("MGM Grand") presentation of "Hallelujah Hollywood," a ten-act stage extravaganza created and produced by Donn Arden ("Arden"). During the period in question — roughly 1974 though 1976 — one of the MGM Grand's premier attractions was its Ziegfeld Theatre.

First open for public performances in April of 1974, the Ziegfeld Theatre was an extravagant showplace designed to present the most lavish and spectacular stage shows ever seen in Las Vegas, or indeed anywhere else in the world. To entertain and thrill the audience, the theatre incorporated many unique elements and the most advanced stage devices and special technical effects of its day. These devices and effects included three huge elevators on which entire scenes were lifted or lowered into the audience's view; bridges spanning the entire theatre over which people, animals and vehicles could travel; five lifts that dropped down into the audience area from the ceiling during the show; and a giant dolphin tank that rose from beneath the stage. The special features of the Ziegfeld Theatre probably made it the most unique theatre in the world. [RT 582-87][3]

Desirous of showing the Ziegfeld Theatre to best advantage, MGM Grand wanted to open it with a spectacular stage extravaganza that would highlight the theatre's unique features. MGM Grand engaged the services of Mr. Arden, a producer well known for stage extravaganzas. Mr. Arden concluded that the best way to show off the MGM Grand's Ziegfeld Theatre was through "Hallelujah Hollywood," a show specially designed as a tribute to MGM movies and staged in the style that appealed to Las Vegas audiences, which style naturally included dozens of statuesque showgirls dancing or parading either partially nude or dressed in lavish, colorful costumes. [RT 344, RT 589-593] As one witness testified, "Hallelujah Hollywood" was "a long nightclub revue with excerpts from tons and tons of standards, tons and tons of songs, there were circus acts, showgirls and many, many things." [RT 491-92]

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[3]"RT" refers to the Reporter's Transcript of Proceedings.

"Hallelujah Hollywood" opened with a production number consisting of a medley of approximately 40 songs spanning decades of Hollywood and Broadway productions. [RT 246] To honor the name of the new theatre, MGM Grand presented a Ziegfeld Follies number featuring beautiful women and lavish costumes on a giant staircase created with the use of the elevators and other unique features and special effects of the Ziegfeld Theatre. [RT 240, RT 590] For what Arden described as "nostalgia" purposes, the show featured a production number based upon "Meet Me In St. Louis," which had starred Judy Garland. [RT 240-41] In keeping with Arden's reputation for presenting breathtaking scenes, an act entitled "The Pirate" was presented. Through the use of stage elevators, special effects and the huge dolphin tank, Arden created the illusion of a ship exploding and sinking on stage. [RT 241, RT 590-91]

The production numbers featured in "Hallelujah Hollywood" were interspersed with circus-type acts, including "Siegfried and Roy," probably "the greatest magical act in the world" and "without question the most spectacular, the most intriguing and talked-about act [in 'Hallelujah Hollywood']." [RT 595-598]

The last act created for "Hallelujah Hollywood" — Act IV — had an exotic middle eastern, Arabian Nights-type atmosphere. [RT 265, RT 369-72] This familiar theme — which the District Court found to be "so generalized that it belongs to more works than can be enumerated" [CR 188 at 7][4] — was considered a viable medium by Arden because it not only facilitated the display of large choruses of showgirls, either nude or in colorful and exotic costumes, but at the same time emphasized the

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[4]"CR" refers to the Clerk's Record on Appeal.

Ziegfeld Theatre's immense size and special features. [RT 391, RT 605-07]

Act IV consisted of approximately 11 minutes of exotic music and dance. [Ex. 37] The music used in Act IV consisted in part of *less than six minutes* of snippets of plaintiffs' music. "[J]ust like other parts of the show, [Act IV contained] excerpts from music from many, many sources." [RT 497] As found by the District Court, "it is clear that . . . the infringing material is only one of several elements that contributed to [Act IV]." [CR 188 at 26] The Arabian Nights effect was created through the use of elaborate and costly costumes designed by Bob Mackie and Ray Aghayan, well-known costume designers. [RT 609-12] In fashioning the original designs, the designers did not copy the costumes in plaintiffs' musical play "Kismet." [RT 615-17].

Act IV, as the District Court found, was "a non-narrative pageant, the elements of which did not contribute to the unfolding of a discernible plot." [CR 188 at 7] The pageant entertained the audience by featuring 24 Bluebell girls (a world famous chorus line), 12 showgirls, 12 dancing nudes and 12 dancing boys. [RT 592-93] The unique attractions of the Ziegfeld Theatre were prominently displayed in Act IV by, for example, causing boudoirs of partially clad women to be lowered from the ceiling of the Ziegfeld Theatre during the course of Act IV. [RT 588-89]

The insignificant impact of plaintiffs' music on MGM Grand's profits from "Hallelujah Hollywood" is aptly demonstrated by the undisputed fact that the deletion of plaintiffs' music from Act IV went unnoticed by the audience and had absolutely no effect on attendance at the show. [RT 607-08, RT 658-62, Ex. BC] The deletion of plaintiffs' music required no changes in the staging, choreography, costuming, or visual representation used in

Act IV. The deleted music was readily replaced by music by Tschaikovsky and Rachmaninoff. [RT 311-17, RT 607-08] This substitution was easy due to the fact that plaintiffs' music had not been chosen for the purpose of relating any story unfolding on stage. To the contrary, plaintiffs' music had been chosen only for its effect in relation to the spectacles witnessed by the audience. [RT 272-75, RT 389-92, RT 605-07]

B. The First Trial.

On November 1, 1974, plaintiffs informed the MGM Grand that they believed Act IV infringed their copyrights in the dramatico-musical play "Kismet." [Ex. 11] Shortly thereafter, Karla Davidson, an attorney experienced in copyright matters, attended a showing of "Hallelujah Hollywood," observing that Act IV contained no dialogue, told no story whatsoever, used only portions of a limited selection of musical numbers from plaintiffs' play, and could not possibly be confused with plaintiffs' play. Accordingly, based upon these observations, Ms. Davidson concluded that MGM Grand was not infringing plaintiffs' copyrights in "Kismet" through its staging of "Hallelujah Hollywood" and that the MGM Grand required no license other than its "blanket" ASCAP license to perform the musical compositions from "Kismet." [RT 497, Ex. 15, Ex. 17]

Plaintiffs commenced this action on April 5, 1976. [CR 1] After numerous delays, the bench trial was held on August 18 to 21, 1981 before the Honorable Robert J. Kelleher, Senior District Judge for the Central District of California. The District Court submitted its written Memorandum Decision on October 24, 1983. [CR 188] In that decision, the District Court found that "the abbreviated renditions of five songs from the fourteen selections in plaintiffs' dramatico-musical play cannot be said to

portray the story told in plaintiffs' musical play," that "Act IV portrays an idea of a young man in love with a beautiful Arabian woman — a very small element of the story told in the dramatico-musical play KISMET, and an element so generalized that it belongs to more works than can be enumerated," and that "Act IV of 'Hallelujah Hollywood' was a non-narrative pageant, the elements of which did not contribute to the unfolding of a discernible plot." [CR 188 at 7] Moreover, the District Court concluded that "[b]y no stretch of the imagination could one confuse defendants' abbreviated versions of plaintiffs' songs with the full dramatico-musical play: . . . [the] effect of the two works was entirely different." [CR 188 at 18].

Notwithstanding such findings, the District Court held that in performing portions of songs from plaintiffs' play "accompanied by visual representations of the dramatico-musical play" defendants had infringed plaintiffs' copyrights. [CR 188 at 11, 17]. Accordingly, and because plaintiffs failed to prove actual damages, the District Court awarded plaintiffs' $22,000 in infringer profits, concluding "that an award of that portion of defendants' profits attributable to the infringement is appropriate." [CR 188 at 22] Finally, the District Court dismissed plaintiffs' pendent state claims of unfair competition and breach of contract. [CR 188 at 17-21] Plaintiffs appealed the profits award and defendants appealed the finding of infringement.

C. The First Appeal.

In *Frank Music Corp. v. Metro-Goldwyn-Mayer Inc.*, 772 F.2d 505 (9th Cir. 1985) (*"Frank Music I"*), the Ninth Circuit affirmed the District Court's infringement finding, but vacated the damage award. In so doing, the Ninth Circuit explained that not only did the award of $22,000

seem "grossly inadequate," but that the District Court had failed adequately to explain the basis for its apportionment. *Frank Music I,* 772 F.2d at 518. The Ninth Circuit also remanded for findings related to five additional issues: (1) the liability of possible joint infringers Donn Arden and Metro-Goldwyn-Mayer Inc. ("MGM Inc."); (2) the propriety of an award of statutory damages; (3) the propriety of an award of attorneys' fees; (4) whether MGM Grand's overhead expenses contributed to the infringing production; and (5) whether this was an appropriate case for apportionment of defendants' indirect profits.

D. On Remand To The District Court.

After the Ninth Circuit clarified its opinion in *Frank Music I,* the District Court issued its second Memorandum Decision on July 21, 1987 ("Memorandum II"). In this second decision, the District Court determined that Act IV was responsible for approximately 10% of MGM Grand's profits resulting from its infringing production of "Hallelujah Hollywood," and that the infringing elements within Act IV were responsible for approximately 25% of those profits attributable to Act IV. Accordingly, the District Court awarded plaintiffs $153,290 (2.5% of MGM Grand's direct profits from "Hallelujah Hollywood"). In addition, the District Court determined that entertainment at MGM Grand was responsible for 5% of MGM Grand's indirect profits, that "Hallelujah Hollywood" was responsible for 2% of that amount, and that plaintiffs were thus entitled to an award of $190,434 for MGM Grand's indirect profits resulting from the infringement. Finally, the District Court dismissed from the action both MGM Inc. and Donn Arden, awarded plaintiffs' attorney's fees in the amount of $115,000, and concluded, in light of the award of both direct and indirect infringer profits in the amount of $343,724, that

an award of statutory "in lieu" damages was inappropriate.[6] Plaintiffs appealed, *inter alia,* the damages award and defendants appealed the attorney's fees award.

E. The Second Appeal.

In *Frank Music Corp. v. Metro-Goldwyn-Mayer Inc.,* 886 F.2d 1545 (9th Cir. 1989) (hereinafter *Frank Music II*), the Ninth Circuit corrected certain clerical errors, approved the District Court's method for apportioning damages, affirmed that the District Court had considered the appropriate and necessary factors in apportioning defendants' profits with respect to infringing and non-infringing elements within Act IV, and then rejected the District Court's apportionment. Specifically, the Ninth Circuit concluded that, giving "due regard" to the District Court's findings, a "fairer" apportionment provided plaintiffs' with 75%, rather than 25%, of those profits attributable to Act IV. *Frank Music II,* 886 F.2d at 1550. Further, the Ninth Circuit not only concluded that prejudgment interest was available to a prevailing plaintiff in an infringement action,[7] but that the purposes of the

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[6]"The Court finds that the award of profits attributable to the infringement adequately compensates plaintiffs for their injury. The award is also adequate to discourage wrongful conduct. The Ninth Circuit expressly affirmed this Court's findings that the infringement was neither willful, conscious nor deliberate. MGM Grand believed in good faith that the ASCAP license it paid for authorized the conduct at issue. Moreover the award of profits on remand exceeds the original award of $22,000 by more than fifteen times. Although the appellate panel opined that $22,000 'seems to be grossly inadequate,' it provided little guidance as to how to determine the correct figure. The Court trusts that a fifteen-fold increase based on a reasoned apportionment of profits renders the award adequate." Memorandum II at 7.

[7]The issue of whether prejudgment interest was an available award was not raised by plaintiffs in the District Court.

Copyright Act would be best served in *this* and apparently every case by such an award. *Id.* at 1552-53. Finally, the court below concluded that plaintiffs had failed to substantiate their claim for attorney's fees. *Id.* at 1557.

In other words, the Ninth Circuit, ignoring its responsibilities as an appellate court, rejected many of the District Court's factual finding even though those findings were well supported by substantial and competent evidence and even though the Ninth Circuit specifically approved the District Court's methodology for its damages calculations. The enormous disparity between the District Court's finding that plaintiffs' contribution to Act IV was *25%* of the drawing power of the act, and the Ninth Circuit's finding that plaintiffs' contribution was *75%*, demonstrates the cavalier manner in which the appellate court took upon itself the evidentiary weighing and assessing that belongs within the province of the trial court. This was no minor adjustment, such as that represented by the correction of an arithmetic error (as in footnote 2 of the Ninth Circuit's opinion).

VIII

ARGUMENT

A. The Ninth Circuit Engaged In *De Novo* Fact-finding In Derogation Of The Mandates Of Rule 52(a); The District Court's Findings Should Be Affirmed.

1. THIS COURT SHOULD GRANT CERTIORARI.

This Court has often granted certiorari in order to exercise its supervisory powers over the lower courts. Although such "supervisory" cases arise under disparate circumstances, they can generally be classified as cases where the lower courts employed procedures or decisional techniques so far outside the usual course of proceedings

that the integrity of the judicial process itself was brought into question. *See, e.g., New York Transit Authority v. Beazer*, 440 U.S. 568, 570-71, 99 S.Ct. 1355 (1979) (court decided constitutional question without first determining applicability of relevant statute); *Thermtron Products, Inc. v. Hermansdorfer*, 423 U.S. 336, 345 n.9, 96 S.Ct. 584 (1976) (certiorari granted to review decision of District Court where District Court remanded case back to state court on ground not provided in statute: full calendar); *Maggio v. Zeitz*, 333 U.S. 56, 59, 68 S.Ct. 401 (1948) (although Court of Appeals apparently believed that debtor no longer had possession of chattel and could not turn chattel over to court, it nonetheless affirmed debtor's contempt citation).

Appellate fact-finding in derogation of Rule 52(a) of the Federal Rules of Civil Procedure is a decisional technique so far outside the usual course of judicial proceedings that exercise of this Court's supervisory powers is warranted. *See Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809, 810, 106 S.Ct. 1578 (1986) (patent case where petitioner argued that Court of Appeals had engaged in *de novo* fact-finding with regard to obviousness inquiry; remanded for clarification of findings). The threat represented by such fact-finding is posed by the arrogation by the appellate court of functions more appropriately and efficiently carried out by the trial court. The role of an appellate tribunal is not to find facts, but to interpret law. *E.g. DeMarco v. United States*, 415 U.S. 449, 450 n., 94 S.Ct. 1185 (1974) ("factfinding is the basic responsibility of district courts, rather than appellate courts"); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 123, 89 S.Ct. 1562 (1969) ("[i]n applying the clearly erroneous standard to the findings of a district court sitting without a jury, appellate courts must constantly have in mind that their function is not to decide factual issues *de novo*"). As this Court stated in *Anderson*

v. City of Bessemer City, N.C., 470 U.S. 564, 574-75, 105 S.Ct. 1504 (1985):

> "The trial judge's major role is the determination of fact, and with experience in fulfilling that role comes expertise. Duplication of the trial judge's efforts in the court of appeals would very likely contribute only negligibly to the accuracy of fact determination at a huge cost in diversion of judicial resources. In addition, the parties to a case on appeal have already been forced to concentrate their energies and resources on persuading the trial judge that their account of the facts is the correct one; requiring them to persuade three more judges at the appellate level is requiring too much."

Where, in derogation of this functional and practical limitation, the appellate tribunal serves as the ultimate fact-finder, numerous adverse consequences follow. Such consequences include diminished public confidence in the decisions of lower courts, disorder in the administration of justice, and an unwarranted increase in the number of appeals brought by parties on nothing more than the hope that an appellate fact-finder will interpret circumstance more favorably. *See generally, e.g., Pendergrass v. New York Life Ins. Co.*, 181 F.2d 136, 138 (8th Cir. 1950) (where district court's finding that decedent was killed in self-defense was plausible and had substantial record support, court of appeals could not overturn that finding). Accordingly, where, as here, the appellate court has taken upon itself the role of ultimate fact-finder, this Court should not hesitate to extend its supervisory powers in order to reassert appropriate appellate limits. For these reasons, defendants respectfully suggest that this Court grant certiorari in order to review the opinion of the Ninth Circuit in this case.

2. RULE 52(a).

Rule 52(a) of the Federal Rules of Civil Procedure generally provides that a district court's factual findings may not be set aside unless clearly erroneous. F.R.C.P. Rule 52(a); *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 855, 102 S.Ct. 2182 (1982) (district court's finding that generic drug manufacturers had not intended to induce pharmacists to mislabel generic drugs not clearly erroneous; court of appeals erred in holding findings clearly erroneous). "A finding is 'clearly erroneous' when although there is evidence to support it, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been committed." *United States v. United States Gypsum Co.*, 333 U.S. 364, 395, 68 S.Ct. 525 (1948). Although the "clearly erroneous" standard is somewhat flexible, it does not permit the reviewing court to reject the district court's findings simply because the reviewing court would have come to a different conclusion. *Anderson*, 470 U.S. at 573 (district court's finding that petitioner had been denied employment because of her sex was not clearly erroneous; court of appeals erred in holding factual findings erroneous). Quite the contrary, so long as the district court's findings are plausible when viewed in light of the entire record, the district court's findings will stand. Indeed, where "there are two permissible views of the evidence, the factfinder's choice between them cannot be clearly erroneous." *Id.* at 574; *United States v. Yellow Cab Co.*, 338 U.S. 338, 342, 70 S.Ct. 177 (1949). The scope of review permitted under Rule 52(a) is not enlarged because the evidence consists of documentary or similar "cold" evidence; rather, the clearly erroneous standard applies "even when the district court's findings do not rest on credibility determinations, but are based instead on physical or documentary evidence or inferences from other facts." *Anderson*, 470 U.S. at 474.

3. THE DISTRICT COURT'S FINDINGS WERE NOT CLEARLY ERRONEOUS AND SHOULD HAVE BEEN AFFIRMED.

a. Apportionment of Profits.

In determining that plaintiffs' were entitled to 25% of those profits attributable to Act IV, the District Court stated that:

> "The question of apportionment does not end here, however. The infringing musical material was only one of several elements contributing to the segment. A portion of the profits attributable to Act IV must be allocated to other elements, including the creative talent of the producer and director, the talents of performers, composers, choreographers, costume designers and others who participated in creating Act IV, and the attraction of the unique Ziegfeld Theatre with its elaborate stage effects. To allow plaintiffs to recover all of the net profits attributable to Act IV when much of Act IV embodied original material would impose a penalty rather than just compensation for the infringement. Such a penalty is not contemplated by the copyright statute. While no precise mathematical formula can be applied, the Court concludes that in light of the evidence, a fair approximation of the value of the infringing work to Act IV is twenty-five percent."

Memorandum II, pp. 4-5 (citations omitted).

In making this apportionment, the District Court was acting pursuant to well-established law holding that profits must be apportioned between infringing and non-infringing elements of a work. *E.g. Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 408, 60 S.Ct. 681 (1940). Indeed, where the evidence even " 'suggests some division which may rationally be used as a springboard, it

is the *duty* of the court to make some apportionment.' " *Cream Records, Inc. v. Joseph Schlitz Brewing Co.*, 754 F.2d 826, 828-829 (9th Cir. 1985) (emphasis added, citations omitted). Moreover, in considering such elements as the star quality of the performers, creative talents and contributions of the producers, directors, composers, and costume designers, and the Ziegfeld Theatre's special attractions, the District Court based its apportionment upon well-established precedent. *See, e.g., Sygma Photo News, Inc. v. High Society Magazine, Inc.*, 778 F.2d 89, 94-96 (2d Cir. 1985) (apportionment between profit contributions of infringing cover photograph and other non-infringing elements of defendant's magazine); *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 508 F.Supp. 798, 801-802 (S.D.N.Y. 1981), *modified* 722 F.2d 988 (2d Cir. 1983) (court apportioned profits based upon infringing and non-infringing elements within single infringing song); *Sheldon*, 309 U.S. at 408 (apportionment between the story elements of plaintiffs' infringed play and non-infringing elements, such as star quality of actors, the original "artistic conceptions" and "expert supervision and direction" of defendant's film).

Indeed, the Ninth Circuit here specifically approved the District Court's apportionment methodology. *Frank Music II*, 886 F.2d at 1549 ("[t]he District Court was correct in probing into the parties' relative contributions to Act IV"). Nonetheless, the Ninth Circuit rejected the District Court's apportionment, holding that:

> "While it was not inappropriate to consider the creativity of producers, performers and others involved in staging and adapting excerpts from *Kismet* for use in *Hallelujah Hollywood*, the district court erred in weighing these contributions so heavily. . . . We conclude that apportioning 75% of Act IV to the defendants grossly undervalues the importance of

> the plaintiffs' contributions. Act IV was essentially *Kismet*, with contributions by the defendants; it was not essentially a new work incidentally plagiarizing elements of *Kismet*. A fairer apportionment, giving due regard to the district court's findings, attributes 75% of Act IV to elements taken from the plaintiffs and 25% to the defendants' contributions."

Id. at 1549-50. In other words, the Ninth Circuit *reweighed* the very same evidence considered by the District Court to arrive at a different conclusion. With all due respect to the Ninth Circuit, however, this was not a proper decision for it to make. To paraphrase the court in *Cream Records*, another Ninth Circuit case, the Ninth Circuit's apportionment here is:

> "in the end no less speculative than that of the [district] court. The disparity between the amount [awarded by the Ninth Circuit] and the amount awarded by the [district] court appears to rest . . . upon a disagreement as to the extent to which [Act IV] infringed upon the copyright and the importance of the copyrighted material to the effectiveness of [Act IV]. These were determinations for the District Court to make."

Cream Records, 754 F.2d at 829 (citations omitted). Plainly put, a disagreement on the part of the appellate court as to the "importance of the copyrighted material to the effectiveness of" Act IV is not grounds for rejecting the district court's factual findings. *Anderson*, 470 U.S. at 473. Rather, the district court's factual findings can be reversed only if the record as a whole is not susceptible to those findings. *Id.* at 574.

In this case, as discussed in the Statement of Facts, *supra*, the record is not only susceptible to the District Court's findings, but those findings are clearly correct

insofar as they imply that the non-infringing elements of Act IV were far more important to the Act's success than were the infringing elements. Based upon that record, the fact-finder in this case, *i.e.* the District Court, determined that plaintiffs' contributions to Act IV were responsible for 25% of Act IV's profits. Because that finding is not implausible given the substantial evidence supporting it, it was error for the Ninth Circuit to reverse it or to suggest any other apportionment. *See Amadeo v. Zant,* 486 U.S. 214, ____, 108 S.Ct. 1771, 1778 (1988) ("[a]lthough there is significant evidence in the record to support the findings of fact favored by the Court of Appeals, there is also significant evidence in the record to support the District Court's contrary conclusion. . . . We frequently have emphasized that '[w]here there are two permissible views of the evidence, the factfinder's choice between them cannot be clearly erroneous.' ").

b. Order of Prejudgment Interest.

Plaintiffs never raised the issue of whether prejudgment interest is an available remedy in an action for copyright infringement in the District Court. Accordingly, the District Court made no explicit findings in this regard. Nevertheless, the Ninth Circuit in *Frank Music II* not only held, as a matter of law, that prejudgment interest is an available remedy in an appropriate case, but also found (apparently as a factual matter) that an award in this case was required because the primary profits award did not adequately compensate the plaintiffs. In so holding and finding, the Ninth Circuit stated that:

> "Because the 1909 Act allows plaintiffs to recover only the greater of the defendant's profits *or* the plaintiff's actual damages, an award of profits or damages under the 1909 Act will not necessarily be adequate to compensate a prevailing copyright

> owner. Accordingly, we conclude prejudgment interest ordinarily should be awarded. . . . We accordingly remand to the district court to enter an award of prejudgment interest."

Frank Music II, 886 F.2d at 1552 (emphasis in original; citation, footnote omitted).

The Ninth Circuit's factual finding in this regard only serves to highlight the dangers inherent in *de novo* appellate fact-finding. For example, at no point does the Ninth Circuit explicate the evidence upon which its factual finding, *i.e.,* that an award of prejudgment interest should be made in *this* case because the primary award was inadequate to fully compensate the plaintiff,[8] was made. Accordingly, it is difficult to determine the basis of the Ninth Circuit's finding or whether the record supports that finding. Moreover, the Ninth Circuit's finding appears directly contrary to one of the District Court's factual findings, that being that an award of statutory "in lieu" damages was not appropriate because the District Court's primary award fully compensated plaintiffs and was in all other respects adequate to fulfill the purposes of the Copyright Act. Memorandum II, p. 7. Nonetheless, the Ninth Circuit did not declare the District Court's finding clearly erroneous.

More important than these criticisms, however, is that the Ninth Circuit exceeded its authority. Because the District Court had not considered this issue, the Ninth Circuit was without power to find the facts for the District Court and then order the District Court to enter the award. The usual rule is that when an appellate court

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[8]To the extent that the court below actually held that an award of prejudgment interest should be made to a prevailing plaintiff in *every* infringement action, defendants respectfully submit that such holding is contrary to law and should be reversed. *See* discussion *infra.*

determines that a trial court has failed to consider relevant evidence because of a mistaken application of law, the appellate court should remand for further proceedings. *Pullman-Standard v. Swint*, 456 U.S. 273, 291, 102 S.Ct. 1781 (1982). In *Pullman-Standard*, the Court of Appeals determined that the district court had failed to consider relevant evidence in determining whether a seniority system was violative of Title VII. 456 U.S. at 290-91. Therefore, the Court of Appeals itself considered the evidence and determined, contrary to the district court's finding, that the questioned seniority system had a discriminatory intent. This Court, in condemning the Court of Appeals' practice, stated that:

> "Proceeding in this manner seems to us incredible. . . . It follows that when a district court's finding on such an ultimate fact is set aside for an error of law, the court of appeals is not relieved of the usual requirement of remanding for further proceedings to the tribunal charged with the task of factfinding in the first instance."

Id. at 293.

Just as in *Pullman-Standard*, the Ninth Circuit's factual findings here should be rejected. Assuming that the District Court committed an error of law in failing to consider the applicability of a prejudgment interest award, it was not for the Ninth Circuit to fill in the District Court's missing findings. Rather, it was the Ninth Circuit's task to remand the issue so that "the tribunal charged with the task of factfinding in the first instance" could perform its function.

B. To The Extent That The Ninth Circuit Found That The Copyright Act Requires An Award Of Prejudgment Interest, It Erred.

In *Robert R. Jones Associates, Inc. v. Nino Homes*, 858 F.2d 274 (6th Cir. 1988), the Sixth Circuit held that the lower court's prejudgment interest award in a case under the 1976 Copyright Act was unwarranted. *Id.* at 282. In so doing, the Sixth Circuit noted that the primary damage award in that case was sufficient to satisfy the purposes of the Copyright Act and, thus, that any further award could not advance the "congressional purposes underlying the obligations imposed by the statute in question." *Id.* (quoting *Bricklayers' Pension Trust Fund v. Taiariol*, 671 F.2d 988, 989 (6th Cir. 1982)). The Court further noted that:

> "The Patent Act, unlike the Copyright Act, expressly authorizes the court to award prejudgment interest. 35 U.S.C. § 284. This distinction in statutes governing similar activities suggests that Congress believed that giving the court in copyright infringement cases the *discretionary* authority to award costs and attorneys' fees would be sufficient to enable the court to enhance the deterrent force of the law in cases of flagrant misconduct."

Id. (emphasis added). In other words, the *Nino Homes* court held that while an award of prejudgment interest *might* be available in an appropriate copyright case, such an award is *discretionary*, to be made only when the total award in the absence of prejudgment interest would be insufficient to satisfy the purposes of the Copyright Act. Further, in light of the general admonition that the primary award "by no possibility shall be too small,"[9] *Nino Homes* implies that in only the rare case would prejudgment interest be an available remedy.

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[9] *Sheldon v. Metro-Goldwyn Pictures*, 106 F.2d 45, 48 (2d Cir. 1939).

The holding in *Nino Homes* essentially is in accord with the great weight of authority in the district courts.[10] Indeed, even in the rare cases where prejudgment interest has been awarded, the courts have not held that the award is mandatory. For example, *Fedtro, Inc. v. Kravex Mfg. Corp.*, 313 F.Supp. 990, 1001 (E.D.N.Y. 1970), the court specifically noted that "[i]n the circumstances of this case *discretionary* interest at the rate of 6% per annum to the date of judgment is awarded." (Emphasis added.)

Notwithstanding such persuasive and unanimous authority to the contrary, the Ninth Circuit here apparently held that an award of prejudgment interest under the Copyright Act is required.[11] In so holding, the Ninth

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[10]*See, e.g., Broadcast Music, Inc. v. Golden Horse Inn Corp.*, 709 F.Supp. 580, 581 (E.D. Penn. 1989) (award of prejudgment interest not available under Copyright Act, even in case of flagrant infringement); *Whelan Assoc., Inc. v. Jaslow Dental Laboratory*, 609 F.Supp. 1325, 1327- 28 (E.D. Pa. 1985), *aff'd* 797 F.2d 1222 (3d Cir. 1986), *cert. denied* 107 S.Ct. 877 (1987) (although substantial evidence of defendant's misconduct and bad faith, court declined to award prejudgment interest on award of infringer profits); *Davis v. E.I. DuPont de Nemours & Co.*, 257 F.Supp. 729, 730 (S.D.N.Y. 1966) (although court expressed significant doubt regarding availability of prejudgment interest award under Copyright Act, it could not make such award in this case even if available in some cases because primary award was sufficient to satisfy purposes of Act).

[11]The Ninth Circuit attempted to dismiss the inherent conflict between its holding and the Sixth Circuit's holding in *Nino Homes* on the ground that *Nino Homes* was decided under the 1976 Copyright Act whereas the present case is decided under the 1909 Act. The distinction is illusory. Relevant here, the only distinction between the 1976 and 1909 Acts is that the Ninth Circuit has determined that, under the 1976 Act, a prevailing plaintiff is entitled to an award of both infringer profits and damages. *See Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1023 (9th Cir. 1985). Under the 1909 Act, contrarily, the Ninth Circuit has held that only the greater of profits or damages are recoverable. *See Frank Music I*, 772 F.2d at 512. Presumably, therefore, the basis of the Ninth Circuit's distinc-

Circuit first determined that Congress's silence in failing to provide for recovery of prejudgment interest in the Copyright Act was "just that — silence." *Frank Music II,* 886 F.2d at 1551 & n.8. In other words, the Ninth Circuit held that Congress's failure specifically to permit recovery of prejudgment interest under the Copyright Act did not imply that such recovery was not intended. *Id.* From this premise, the Ninth Circuit concluded that recovery of prejudgment interest effectively was mandated[12] in all copyright cases (at least under the 1909 Act) because "an award of profits or damages under the 1909 Act will not necessarily be adequate to compensate a prevailing copyright owner." *Id.* at 1552. The Ninth Circuit's holding should be rejected.

First, it does not necessarily follow that because "an award of profits or damages under the 1909 Act will not necessarily be adequate to compensate a prevailing copyright owner," that an award under the 1909 Act always will be "inadequate" to compensate the copyright owner

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tion is its belief that the 1909 Act does not compensate the plaintiff as readily as does the 1976 Act. If this is the Ninth Circuit's belief, it is ill-founded. The 1909 Act, like the 1976 Act, provides for full compensation in the usual case regardless of the availability of prejudgment interest. It does this, as discussed *infra,* through an award of statutory "in lieu" damages. Thus, although a specific element of recovery may be omitted under the 1909 Act, the total recovery will be adequate to satisfy the purposes underlying the Act regardless of the availability or unavailability of prejudgment interest. Accordingly, for purposes here, there is no meaningful distinction between the 1976 and 1909 Acts or the authorities construing each.

[12]To the extent that the Ninth Circuit actually held that the decision whether to award prejudgment interest is discretionary in a copyright case, defendants submit that it is the district court, rather than the Ninth Circuit, that holds that discretion. Accordingly, the Ninth Circuit was without authority to order such an award in this case. *See* discussion *supra.*

or otherwise satisfy the purposes of the Copyright Act. Indeed, at most the Ninth Circuit's rationale implies only that a district court should have discretion to award prejudgment interest in an appropriate case, for example, where the plaintiff is inadequately compensated. With such discretion the district court can fashion a remedy that ensures that the purposes underlying the Copyright Act will be satisfied while at the same time avoiding unreasonable penalties that the Act was not intended to impose.

Second, even though, under applicable Ninth Circuit law, the 1909 Act permits recovery only of infringer profits *or* damages (as opposed to profits and damages), it still does not follow that the copyright owner will be undercompensated. On the contrary, because the district court under the 1909 Act is required to award a prevailing plaintiff statutory "in lieu" damages whenever it determines that a damages or profits award will be insufficient to satisfy the purposes of the Copyright Act, it must be presumed that the Act does indeed provide full compensation. *See Frank Music I*, 772 F.2d at 519. Thus, regardless of the availability of prejudgment interest, the 1909 Act provides a mechanism that ensures adequate compensation to the prevailing plaintiff.

Finally, this Court has held that, as a general matter, when a statute is silent with respect to the availability of an award of prejudgment interest, the district court will have the discretion whether to make or withhold such an award. *See Rodgers v. United States*, 332 U.S. 371, 373, 68 S.Ct. 5 (1947) (in absence of legislative direction, decision to grant or deny prejudgment interest should hinge on whether award furthers congressional purposes underlying obligations imposed by statute). Indeed, even where a statute explicitly provides for an award of prejudgment interest, the district court retains its discretion. *See*

General Motors Corp. v. Devex Corp., 461 U.S. 648, 656-57, 103 S.Ct. 2058 (1983) (patent statute does not require award of prejudgment interest in every case). Here, contrarily, the Ninth Circuit apparently has held that although Congress provided mechanisms to ensure that the purposes underlying the Copyright Act are satisfied without recourse to prejudgment interest, and although Congress failed explicitly to provide for an award of prejudgment interest, an award of prejudgment interest is mandatory. The only explanation provided by the Ninth Circuit for this extraordinary holding is that a plaintiff may in some cases be undercompensated unless prejudgment interest is awarded. The Ninth Circuit's holding is illogical, against the great weight of authority, unnecessary and unwarranted. For these reasons, it should be rejected.

IX

CONCLUSION

Petitioners respectfully urge this Court to grant review of this case in order to exercise its supervisory authority over the court below. An exercise of such supervisory authority is warranted in this case because the Ninth Circuit here has so far departed from the usual course of appellate proceedings that the integrity of those proceedings have been called into doubt. Specifically, the Ninth Circuit in this case engaged in *de novo* fact-finding in disregard of the mandates of Rule 52(a) of the Federal Rules of Civil Procedure.

In addition, defendants respectfully urge this Court to grant review of this case to settle an irreconcilable split of authority among the Circuits. The Ninth Circuit and the Sixth Circuit currently disagree on whether a district court has discretion whether to award prejudgment interest to a prevailing plaintiff in an action under the Copy-

right Act. Specifically, the Sixth Circuit has held that the district court retains discretion to make or refuse such an award. The Ninth Circuit apparently has divested the District Court of that discretion by effectively holding that such an award is required in every case.

DATED: December 21, 1989

Respectfully submitted,
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Metro-Goldwyn-Mayer, Inc.,
MGM Grand Hotel, Inc., and
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APPENDIX A

No. CV 76-1105-RJK

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

FRANK MUSIC CORP., ROBERT WRIGHT, GEORGE FORREST, ANNE LEDERER (as Executrix of the Last Will of CHARLES LEDERER), LUTHER DAVIS, and EDWIN LESTER,
Plaintiffs,

v.

METRO-GOLDWYN-MAYER INC., a Delaware corporation, MGM GRAND HOTEL, INC., a Nevada corporation, and DONN ARDEN,
Defendants.

MEMORANDUM OF DECISION AND ORDER

This action was tried without a jury. Following a four day trial, the Court ordered that the case stand submitted upon the filing of post-trial briefs, which were thereafter filed.

By this action plaintiffs seek damages for copyright infringement, unfair competition, breach of contract and breach of implied covenant of good faith and fair dealing. Plaintiffs are the copyright owners and authors of KISMET, a dramatico-musical production based upon Edward Knoblock's dramatic play of the same name. The dispute arises out of some 1700 performances of "Hallelujah Hollywood," a ten act stage revue produced by defen-

dant Donn Arden and presented at defendant MGM Grand Hotel in Las Vegas.

Plaintiff's copyright infringement claims arise under the 1909 Copyright Act, 17 U.S.C. § 101 *et seq.*, as it existed prior to the passage of the Copyright Act of 1976. The Court has jurisdiction over plaintiffs' unfair competition claims pursuant to 28 U.S.C. § 1338(b). Plaintiffs assert pendent jurisdiction over their remaining common law claims.

Facts:

In August, 1972 defendant MGM Grand Hotel engaged defendant Donn Arden to produce, stage and direct a musical review to be presented on stage in the Ziegfield Room of the MGM Grand Hotel in Las Vegas. Pursuant to this agreement Arden produced a musical revue entitled "Hallelujah Hollywood" which opened at the MGM Grand on April 26, 1974.

"Hallelujah Hollywood" was a fairly typical Las Vegas revue with a number of singing, dancing and variety acts. The revue had ten acts and was approximately 100 minutes long. Four of the ten acts were labeled as "tributes" to motion pictures which had been produced over the years by defendant Metro-Goldwyn-Meyer [sic]. In addition, one of the acts was a tribute to the theater of Ziegfield [sic]. The remaining acts were variety numbers which included performances by a live tiger and a juggler. "Act IV," of which plaintiffs complain, was entitled "KISMET" and was a tribute to the musical motion picture of the same name.

The dramatic play *Kismet* was written by Edward Knoblock in about 1911. Knoblock copyrighted the play as an unpublished work in 1911 and again as a published work in 1912. Beginning in 1916 Knoblock at various

times assigned to third parties the right to produce a motion picture of the dramatic play. In or about 1967 Knoblock's copyright expired and the dramatic play *Kismet* entered the public domain.

In 1952 Edwin Lester, plaintiff in this action, acquired from Knoblock's estate the right to produce on stage a musical version of the dramatic play *Kismet*. Lester engaged plaintiffs Luther Davis and Charles Lederer to write the book and plaintiffs Robert Wright and George Forrest to write the music and lyrics for the musical adaptation. In 1953 and 1954 Lederer and Davis copyrighted the dramatico-musical play KISMET, and in 1953 Wright and Forrest assigned to plaintiff Frank Music Corporation the right to copyright all portions of the musical score written for KISMET. Frank Music subsequently copyrighted the entire musical score and in addition registered copyrights in each of the individual songs in the score.

In November, 1954 Lederer, Wright and Forrest entered into an agreement with Loew's, Incorporated, a predecessor of Metro-Goldwyn-Meyer [sic]. The license agreement gave Loew's the right to produce a feature musical motion picture based on plaintiffs' dramatico-musical play. Pursuant to this agreement, MGM in 1955 released the feature musical motion picture KISMET, starring Howard Keel and Ann Blyth. The story presented in the MGM film and in plaintiffs' dramatico-musical play is essentially the same as the story told in Knoblock's dramatic play. It is the tale of a very full day in the life of a poetic beggar named Hajj and his daughter, Marsinah. Other important characters are the goodly Caliph, the wicked leader of the police (the Wazir) and

the Wazir's beautiful wife, LaLume.[1] The musical play and the film are set in ancient Baghdad, with major scenes set in the streets of Baghdad, the Wazir's palace, an enchanted garden, and the Wazir's harem.[2] It was the 1955 MGM motion picture that Arden intended to pay "tribute" to in Act IV of "Hallelujah Hollywood."

Act IV was approximately eleven and one half minutes long and was comprised of four scenes. In Scene 1, entitled "The Mohammedan Prayer," a group of singers and dancers in muslim-like costumes rendered Donn Arden's version of a Mohammed prayer to the accompani-

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[1]The character "LaLume" appears as "Kut-al-Kulub" in Knoblock's dramatic play.

[2]The plot of plaintiffs' musical play "Kismet" is described in a catalog published by Music Theatre International, which licenses performances of plaintiffs' musical play "Kismet." This catalog describes the various shows for potential licensees, and contains the following summary of plaintiffs' musical play "Kismet":

> "The romantic tale of a day in the life of a handsome and poetic beggar in legendary Bahdad. Hajj decides there might be more money in begging outside the Mosque than in rhymes, so he tries it, only to be kidnapped by the notorious bandit Jawan. Jawan believes Hajj to be the beggar who put a curse on him years ago and, therefore, blames Hajj for the loss of his son. Instead of having Hajj killed, Jewan rewards him with a bag of gold, for Hajj convinces the bandit that he will find his son before the day is over. Hajj returns to the market place with his great wealth and gives his daughter Marsinah money to squander on finery. Hajj is again arrested, this time by the Wazir's guards, for the money Jawan gave Hajj was stolen from a prominent merchant. The Wazir condemns Hajj but the Wazir's wife, LaLume, wants Hajj for herself and between the two of them convince the Wazir that Hajj is a prophet. In the meantime, the Caliph has seen Marsinah and falls in love with her and she with him. Fate plays many tricks before the day is over and Allah's last prayer sung."

ment of a musical selection from plaintiffs' score, "Muezzlin's Call to Prayer." In Scene 2, "The Enchanted Garden," Scene 3 "The Golden Processional," and Scene 4 "The Bacchanal From Paradise," characters named Hadj the Poet, Marsinah, the Caliph and LaLume sang portions of other songs from plaintiffs' musical, including "Stranger in Paradise," "Not Since Ninevah," "Rahadladum," and "Night of My Nights." Backdrops and props depicted street scenes in ancient Baghdad (including bazaars, camels, minerets and oriental palaces) as well as an oriental garden and a harem. In all, Act IV consisted of something less than six minutes of plaintiffs' music. The remainder of the act was comprised of movement from one scene to another and music from other sources.

On November 1, 1974 plaintiffs informed MGM Grand Hotel that they believed Act IV of "Hallelujah Hollywood" infringed their copyrights in the dramatico-musical play KISMET. The MGM Grand Hotel replied that it believed its use of plaintiffs' music was covered by a blanket ASCAP license agreement. In 1965 Frank Music Corporation had entered into an agreement with the American Society of Composers, Authors and Publishers (ASCAP) whereby Frank Music granted to ASCAP the right to license certain rights in Frank Music's musical works. In 1974 MGM Grand Hotel entered into an agreement with ASCAP, effective January 1, 1974, granting MGM Grand a license to perform non-dramatic renditions of the separate musical compositions copyrighted or composed by ASCAP members. This agreement covered all of the musical compositions in ASCAP's repertoire, including all portions of the musical score of the musical play KISMET. Plaintiffs subsequently filed this action, and on July 16, 1976 MGM

Grand substituted a new Act IV in "Hallelujah Hollywood" in place of Act IV KISMET.

Plaintiffs claim that through the production of "Hallelujah Hollywood" with Act IV KISMET, defendants have deprived plaintiffs of the value of their exclusive right of performance of the dramatico-musical play KISMET in Las Vegas. In their first cause of action, for copyright infringement, plaintiffs seek damages for lost royalties and lost profits, or in the alternative, for recovery of defendants' profits. In their fourth cause of action, for unfair competition, plaintiffs seek compensatory and punitive damages. In addition, plaintiffs have alleged, in their second and third causes of action, that defendant MGM breached the 1954 licensing agreement and an implied covenant of good faith and fair dealing in that 1954 contract. Plaintiffs seek general and punitive damages on their 1954 contract claims.

I.

The Copyright Infringement Claim

Plaintiffs contend that Act IV of "Hallelujah Hollywood" infringed their copyright in the dramatico-musical play KISMET. In particular, plaintiffs complain that the songs, characters, scenery, props, dance music styles and dialogue used in Act IV were copied from their dramatico-musical play. The Court finds that defendants' use of songs from plaintiffs' musical play exceeded the scope of the ASCAP license agreement and infringed plaintiffs' copyright.

A. Defendants' Use Of Songs From Plaintiffs' Dramatico-Musical Play Exceeded The Scope Of The ASCAP License.

MGM Grand Hotel argues that its use of portions of songs selected from plaintiffs' musical score was permitted under the terms of the ASCAP license agreement described above. The relevant provisions of the ASCAP license are set out in the margin.[3] The questions presented are (1) whether Act IV of "Hallelujah Hollywood" was a "non-dramatic rendition[] of separate musical compositions" within the meaning of paragraph 1 of the license agreement, and (2) whether Act IV was "accompanied by . . . visual representations of" the dra-

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[3]1. Society grants and Licensee accepts for a period commencing as of January 1, 1974 and ending December 31, 1978 a license to perform publicly by means of live entertainment or mechanical music (as defined in paragraph 2), and by no other means, at or in any part or section of the hotel or motel known as MGM Grand Hotel, 3645 Las Vegas Blvd. So., Las Vegas, Nv. [sic] 29109 non-dramatic renditions of the separate musical compositions copyrighted or composed by members of Society and of which Society shall have the right to license the performing rights.

* * *

3. This license shall not extend to or be deemed to include: (a) Oratories, choral, operatic or dramatico-musical works (including plays with music, revues and ballets) in their entirety, or songs or other excerpts from operas or musical plays accompanied either by words, pantomine, dance, or visual representation of the work from which the music is taken; but fragments of instrumental selections from such works may be instrumentally rendered without words, dialogue, costume, accompanying dramatic action or scenic accessory, and unaccompanied by any stage action or visual representation (by motion picture or otherwise) of the work of which such music forms a part.

(b) Any work (or part thereof) whereof the stage presentation and singing rights are reserved.

matico-musical play KISMET in violation of paragraph 3 of the agreement.

1. Act IV Was A Non-Dramatic Rendition Within The Meaning Of Paragraph 1 Of The ASCAP License.

In order to assist the Court in its construction of the relevant provisions of the ASCAP license agreement, plaintiffs introduced the testimony of Bernard Coleman, general counsel for ASCAP, concerning the purported customs and usage of dealings in ASCAP licenses. Mr. Coleman testified that it is "understood" within the industry that the use of two or more consecutively performed compositions from a dramatico-musical work might render such use dramatic and thus outside the scope of the ASCAP license. By offering evidence of purported custom and usage, plaintiffs necessarily implied that the ASCAP license is unclear or ambiguous in material respects. However the Court declines to use this potentially self-serving testimony in construing the terms of the ASCAP license for the reason that at the time the parties entered into the agreement the phrase "non-dramatic" had a well recognized meaning in copyright law. The essence of a dramatic work is that it *tells a story.* See *Robert Stigwood Group, Ltd. v. Sperber,* 457 F.2d 50 (2d Cir. 1972). *See also* 3 *Nimmer on Copyright,* § 10.10[E].

In the instant action MGM Grand's abbreviated renditions of five songs from the fourteen selections in plaintiffs' dramatico-musical play cannot be said to portray the story told in plaintiffs' musical play. As noted above, plaintiffs' play is the story of a very full day in the life of a poetic beggar. Act IV of "Hallelujah Hollywood," on the other hand, has no plot and tells no story. Certainly Act IV does not tell all, or even a substantial portion of,

plaintiffs' story. At most Act IV portrays an idea of a young man in love with a beautiful Arabian woman — a very small element of the story told in the dramatico-musical play KISMET, and an element so generalized that it belongs to more works than can be enumerated. Act IV of "Hallelujah Hollywood" was a non-narrative pageant, the elements of which did not contribute to the unfolding of a discernible plot.

This conclusion is supported by the decisions of other courts that have construed the provisions of the standard ASCAP license. The Second Circuit Court of Appeals examined the ASCAP license in *April Productions v. Strand Enterprises*, 221 F.2d 292 (2d Cir. 1955). As in the instant case, the *April* court faced the question of whether the defendant had presented musical compositions in a "dramatic" manner contrary to the provisions of its ASCAP license. The defendant nightclub owner had presented a ten-act stage revue. The ninth act included a choral selection of a medley of songs from "The Student Prince," a musical play for which the plaintiff had a copyright. The trial court entered judgment in favor of the defendant, and the Court of Appeals affirmed. In concluding that the performance was a "non-dramatic" rendition of the plaintiff's songs, the court implicitly noted that it is necessary to look not only at the use itself, but also to the entire performance in which the use had occurred. Where the defendant had used only portions of the plaintiff's songs in a medley and the medley was only one act of a multi-act revue, the court concluded that the performance was non-dramatic.

Plaintiffs erroneously argue that the Second Circuit Court of Appeals effectively overruled the *April* decision in *Robert Stigwood Group, Ltd. v. Sperber, supra*. While it did not overrule *April*, the *Sperber* court did point out

that the earlier case had been criticized as being inadequately protective of dramatic performing rights with respect to musical compositions. In *Sperber* the Second Circuit again confronted the issue of whether the defendants had exceeded the scope of the standard ASCAP license. The *Sperber* defendants had used 20 out of 23 songs from the plaintiff's opera, "Jesus Christ Superstar." Not only had the defendants used 78 out of 87 minutes of the original copyrighted score, they had performed all but one of the selections in the identical sequence as in the copyrighted opera and had thereby portrayed the story told in the opera almost as substantially as the story was told in the opera itself. The court therefore concluded that defendant's production was a dramatic rendition in violation of the terms of the ASCAP license.

The instant action is easily distinguished from *Sperber*. Defendants did not use "almost the entire score" from the dramatico-musical play KISMET; rather, defendants used only a small number of selections out of the total number available from plaintiffs' work. Furthermore, defendants used only *portions* of the selections actually used. As in *April*, Act IV was only one act of a multi-act revue: Act IV totalled a mere eleven and one half minutes out of an entire 100 minute production. Most importantly, Act IV of "Hallelujah Hollywood" told *no* story, and certainly did not tell the story presented (or a substantial portion of the story presented) in plaintiffs' dramatico-musical play. Accordingly, the Court concludes that Act IV of "Hallelujah Hollywood" was a non-dramatic rendition of plaintiffs' songs within the meaning of paragraph 1 of the ASCAP license.

2. Act IV Was Accompanied By Visual Representations Of Plaintiffs' Musical Play In Violation of Paragraph 3 Of The ASCAP License.

Notwithstanding the conclusion that Act IV was non-dramatic within the meaning of paragraph 1 of the ASCAP license, MGM Grand's use of plaintiffs' songs nevertheless may have exceeded the scope of the license agreement if the use was "accompanied either by words, pantomime, dance or visual representations of" the dramatico-musical play KISMET in violation of paragraph 3 of the agreement. There can be no doubt that defendants' production combined performance of plaintiffs' musical score with visual representations of plaintiffs' dramatico-musical play.

Plaintiffs' musical play begins with a processional of Arabian men chanting Mohammedan prayers, and focuses on the lives of five characters: Hajj [sic] the poet-beggar, Marsinah, the Wazir, LaLume, and the Caliph. The play moves through various scenes depicting the streets of ancient Baghdad (including swarming bazaars, tall minarets, and oriental palaces) as well as the Wazir's enchanted garden, palace, and harem. Similarly, Act IV of "Hallelujah Hollywood" begins with a processional of Arabian men chanting a Mohammedan prayer, and (as noted in the program) focuses on several characters, including Hadj the poet, Marsinah, the Wazir, LaLume and the Caliph. The backdrops and props for Act IV include the streets of ancient Baghdad, swarming bazaars, tall minarets, an enchanted garden, an oriental palace and the Wazir's harem. At one point in Act IV the character LaLume is carried on stage on a litter to give her rendition of the song "Rahadlakum," much the same as the character of the same name is carried on stage in plaintiffs' musical play. Moreover, the style of dance

music used in Act IV in fact bears no relation to the locale, Baghdad, but is instead a modified "ethnic East Indian jazz" — precisely the same style of dance music used in plaintiffs' original production of their dramatico-musical play, developed by choreographer Jack Cole. In short, while Donn Arden may have created new costumes and new scenery for his "tribute" to the movie musical KISMET, it is clear that the tribute was intended to and did in fact recreate the "same general flavor and look" as that created in the MGM movie. The end result was that Act IV of "Hallelujah Hollywood" combined plaintiffs' songs with visual representations of plaintiffs' musical play.

MGM Grand claims that its use of plaintiffs' songs was nevertheless within the scope of the ASCAP license, arguing that a distinction must be drawn where, as here, plaintiffs' work was a derivative work. Though the distinction between original works and derivative works may be relevant to the question of whether defendants' use in fact infringed plaintiffs' copyright, the Court concludes that the distinction is not relevant to the question of whether defendants' use exceeded the scope of the ASCAP license. The plain language of paragraph 3 of the ASCAP license provides that musical works cannot be accompanied by visual representations of the dramatico-musical play from which the music is taken; no distinction is drawn between original copyrighted works and derivative copyrighted works.

The Court's conclusion is not intended to suggest that any nightclub performance in which a singer does not dress in street clothes and does not stand in front of a plain backdrop exceeds the scope of the standard ASCAP license. *Compare* 3 *Nimmer on Copyright* § 10.10[E]. Rather, the Court simply concludes that the singer does

exceed the ASCAP license where he identifies himself as a character from the work from which the musical number was taken, dresses in a costume designed to recreate the original copyrighted work, and makes use of locale, settings, scenery, props, and dance style music of the type used in the copyrighted work. Act IV of "Hallelujah Hollywood" was accompanied by visual representations of plaintiffs' dramatico-musical play KISMET in violation of paragraph 3 of the ASCAP license agreement. Accordingly, the Court not turns to the question of whether Act IV infringed plaintiff's copyright.

B. Defendants' Unauthorized Use Of Plaintiffs' Songs In Combination With Visual Representations Of Plaintiffs' Musical Play Infringed Plaintiffs' Copyright.

Unauthorized use of songs infringed plaintiff Frank Music's copyright of the individual songs and score. Furthermore, defendants' use of the songs *in combination* with visual presentation of plaintiff's dramatico-musical infringed plaintiff's copyright in the musical play as well.

In order to prevail on a claim for copyright infringment, plaintiffs must establish ownership of the copyright by plaintiffs and copying by defendants. *Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157 (9th Cir. 1977). Copying, in turn, is ordinarily established indirectly by plaintiffs' proof of access and substantial similarity. *Ibid.* In the instant action, defendants concede[4] that plaintiffs have a registered copyright in the dramatico-musical play KISMET

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[4]As will be discussed below, defendants do not concede that all of the material in which plaintiffs claim a copyright is protectable.

and in the musical score.[5] Moreover, it is clear that defendants had access to plaintiffs' copyright work: Donn Arden testified that he and his staff were familiar with the stage version of the musical play and that they ran the movie version and viewed clips of various scenes from the play while preparing "Hallelujah Hollywood." Accordingly, the only question presented by plaintiffs' copyright infringement claim is whether Act IV of "Hallelujah Hollywood" was substantially similar to plaintiffs' copyrighted work, so that it can be inferred that defendants in fact copied plaintiffs' work.

The Ninth Circuit Court of Appeals has established a bifurcated test for determining whether or not a claimed infringing work is substantially similar to a copyrighted work. In *Sid & Mary Krofft Television Productions, Inc. v. McDonald's Corp., supra*, the court established an "extrinsic" test and "intrinsic" test. First, under the extrinsic test, the Court must determine whether or not there is substantial similarity as to the "general ideas" contained in the two works. This is to be determined by analytical examination of the subject matter and the setting for the subject. The second, intrinsic, test is whether or not there is substantial similarity in the expression of the ideas so as to constitute infringement. The intrinsic test depends not on analytic dissection but rather "on the response of the ordinary reasonable person."

In the instant action, plaintiffs have established sufficient similarity of ideas between the two works at issue to

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[5]Defendants' unauthorized use of songs from the dramatico-musical play KISMET infringed Frank Music's separate copyright in the individual songs and the score. The question addressed in the paragraphs immediately following is whether defendants' use of the songs in combination with elements from the musical play infringed plaintiffs' copyright in the musical play as well.

satisfy the "extrinsic" test. As previously noted, Act IV of "Hallelujah Hollywood," like plaintiffs' musical play, is set in ancient Baghdad and focuses on five characters named Hajj, Marsinah, the Wazir, LaLume and the Caliph. Also like plaintiffs' work, scenes depicting crowded streets of Baghdad, the Wazir's oriental palace and garden, and the Wazir's harem. Finally, Act IV includes large portions of five songs taken directly from plaintiffs' musical play. The general ideas contained in the two works are substantially similar.

Turning next to the intrinsic test, the question presented is whether or not there is substantial similarity in the expression of ideas. Substantial similarity in this context may take on one of two forms. On the one hand, there may be "comprehensive non-literal similarity" between the two works at issue. Because "[d]uplication or near identity is not necessary to establish infringement," *Sid & Mary Krofft Television Productions v. McDonald's Corp., supra,* 562 F.2d at 11, substantial similarity may be found where the "fundamental essence or structure of one work is duplicated in another" even though the infringing work has been paraphrased rather than literally copied. *See* 3 *Nimmer on Copyright* § 13.03 [A]. In the instant action, plaintiffs concede that defendants have not presented, literally, the entire musical play KISMET. Plaintiffs argue, however, that the portions of five songs defendants did present told essentially the entire story told in plaintiffs' dramatico-musical play — in effect, that the fundamental essence of their play was copied in defendants' work. Applying the "average reasonable man" standard adopted by the Ninth Circuit Court of Appeals, *see, e.g., Harold Lloyd Corp. v. Witwer,* 65 F.2d 1, 18 (9th Cir. 1933); *Sid & Mary Krofft v. McDonald's Corp., supra,* the Court concludes that Act IV of "Hallelujah Hollywood" was not substantially similar to plaintiffs'

dramatico-musical play in the sense of "comprehensive nonliteral similarity." As the Court has previously noted, defendants' abbreviated renditions of five songs from the fourteen selections in plaintiffs' play did not portray the story told in plaintiffs' work. Act IV of "Hallelujah Hollywood' was a non-narrative pageant, the elements of which did not contribute to the unfolding of a discernible plot.

Where the overall scheme of plaintiffs' work has not been copied, there may nevertheless be substantial similarity between two works where the similarity, although not comprehensive, is literal. *Robertson v. Batten, Barton Durstine and Osborn,* 146 F. Supp. 795 (S.D. Cal. 1956; 3 *Nimmer on Copyright* § 13.03[A]. cf. *Universal Pictures Co. v. Harold Lloyd Corp., supra.* Such similarity will be deemed "substantial" where it relates to matter which constitutes a substantial portion of the plaintiffs' work, regardless of whether the material constitutes a substantial portion of the defendants' work. *E.g., Walt Disney Productions v. Air Pirates,* 581 F.2d 751, 756 (9th Cir. 1978). In the instant action, there is literal similarity between Act IV of "Hallelujah Hollywood" and substantial portions of plaintiffs' dramatico-musical play. The five musical numbers with lyrics performed in Act IV were essentially identical to five songs from plaintiffs' musical play. Each of the five songs in Act IV was performed by a character of the same name as the character that performs that song in plaintiffs' play. Moreover, each of the five songs in Act IV was performed in a setting essentially identical to the setting in which it is sung in plaintiffs' play. Finally, even the staging of a number of the songs in Act IV was identical to the staging of the songs in plaintiffs' play: for example, in Scene 1 "Muslims" form a processional and chant "The Mohammaden Prayer"; in Scene 3, "LaLume" is carried in on a litter to perform her

rendition of "Rahadlakum." Though defendants' rendition of five songs in Act IV could not reasonably be confused with plaintiffs' entire dramatico-musical play, the songs combined with characters, locale, scenery, props and settings do constitute a substantial portion of that play.

Defendants argue that they cannot be held liable for copyright infringement for their use of characters, locale, scenery, props and settings from plaintiffs' musical play because these elements of plaintiffs' play are not afforded copyright protection. Defendants' argument is two-pronged. First, defendants cite *Warner Brothers Pictures, Inc. v. Columbia Broadcasting System, Inc.*, 216 F.2d 945 (9th Cir. 1945) for the proposition that the copyright statute was not intended to protect characters and their names. *But see Walt Disney Productions v. Air Pirates, supra.* Assuming *Warner Brothers* is still the law, it is distinguishable from the case at bar. Defendants herein have used plaintiffs' characters not to tell a new and different story, but to perform plaintiffs' songs, in the same locale, same settings, and with substantially similar costumes, scenery, and props as are found in plaintiffs' work. It is for this reason that the Court has concluded that the two works are not only similar in ideas (*e.g.*, characters) but in expression of the ideas as well. Defendants also argue that their use of material from plaintiffs' play does not constitute infringement where plaintiffs' copyright is a derivative copyright and the material defendants have used is also found in the underlying work. It is well settled that the derivative copyright protects only the new material contained in the work and not material from the original, underlying work. *Russell v. Price*, 612 F.2d 1123, 1128 (9th Cir. 1980), *cert. denied*, 446 U.S. 952 (1980). Moreover, it is undisputed that the characters and locale of plaintiffs' musical play originated

with Knoblock's dramatic play. However the "new material" found in plaintiffs' derivative work is the *combination* of Knoblock's characters and locale with music and song. Such a new combination of characters and music is afforded protection under the copyright laws.

Defendants have infringed plaintiff's copyright in the dramatico-musical play KISMET. The similarity between the two works at issue, although not comprehensive, is quite literal and relates to a substantial portion of plaintiffs' work. The fact that defendants admittedly had access to plaintiffs' copyrighted work, and the further fact that the two works are substantially similar, leads inescapably to the conclusion that defendants have copied plaintiffs' work.

II.

The Unfair Competition Claim

In addition to their claim for copyright infringement, plaintiffs contend that defendants' production of "Hallelujah Hollywood" constituted unfair competition.

A plaintiff charging unfair competition under federal or state law has the burden of proving that there existed a likelihood of confusion between the protected work and the allegedly infringing work. *Walt Disney Productions v. Air Pirates, supra; Alpha Industries, Inc. v. Alpha Steel Tube & Shapes,* 616 F.2d 440 (9th Cir. 1980); *New West Corp. v. NYM Company of California,* 595 F.2d 1194 (9th Cir. 1979); *Paul Sachs Originals v. Sachs,* 325 F.2d 212 (9th Cir. 1963). In the instant action, the evidence presented by plaintiffs has failed to convince the Court that audiences were likely to confuse Act IV of "Halleljuah Hollywood" with plaintiffs' dramatico-musical play KISMET.

As noted above, Act IV was but an eleven and one half minute portion of a 100 minute Las Vegas revue. It was composed of portions of five songs from plaintiffs fourteen song musical play. By no stretch of the imagination could one confuse defendants' abbreviated versions of plaintiffs' songs with the full dramatico-musical play: Act IV contained no dialogue,[6] and the format, style and overall effect of the two works was entirely different. Plaintiffs have presented no convincing evidence that audiences were likely to confuse the two works.

Plaintiffs' unfair competition claim boils down to an assertion that the title "Kismet" has a secondary meaning referring to plaintiffs' musical play KISMET. Once again, plaintiffs have failed to submit convincing evidence in support of their claim. As noted above, it is undisputed that the title "Kismet" had obtained substantial exposure in the United States and abroad as the title of Knoblock's dramatic play. While it may be true that prior use does not defeat a claim of secondary meaning if the later work is the one the public accepts as being referred to when the title is used, *Gordon v. Warner Brothers,* 269 Cal. App. 2d 499 (1960), the burden is on the plaintiff to prove that such a secondary meaning has been attached to the title. The only evidence of secondary meaning upon which plaintiffs rely is the self-serving testimony of plaintiff Edwin Lester, author and producer of plaintiffs' dramatico-musical play. Lester testified that Knoblock's dramatic work had been a "dead issue" since the late 1930's. The Court is not persuaded by this meager evidence. Nor

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[6]The only spoken phrase in Act IV of "Hallelujah Hollywood" was the phrase "Ladies, shall we begin service?" delivered by the character LaLume upon her entrance. However this phrase was not a line of dialogue but was instead simply a vocal line of the song "Rahadlakum."

is plaintiffs' bare argument that "there is no evidence whatsoever" that Knoblock's dramatic play and the subsequent motion pictures lasted in the public eye and mind for more than nine years persuasive where, as here, the burden is on plaintiffs to prove the existence of a secondary meaning.

Finally, the Court has analyzed and rejects plaintiffs' "reverse palming off" argument. Because plaintiffs have made an insufficient showing of unfair competition, the Court finds that defendants are not liable on this additional claim.

III.
The Breach Of Contract Claims

In the second and third counts of their complaint, plaintiffs assert pendent state law claims for breach of contract and breach of an implied covenant of good faith and fair dealing based on a 1954 agreement between plaintiffs Wright, Forrest, Lederer and Davis, and defendant MGM's predecessor-in-interest, Loew's Incorporated. This 1954 contract gave Loew's Inc. (hereinafter MGM) the right to produce a motion picture based on plaintiffs' dramatico-musical play KISMET. Under the terms of the contract, MGM's use of the musical score was limited to the production and promotion of a motion picture based on plaintiffs' property. Plaintiffs now argue that MGM breached this agreement by producing "Hallelujah Hollywood," and in addition breached a covenant to good faith and fair dealing implicit in the 1954 agreement. The Court is not persuaded by plaintiffs' arguments.

MGM did not produce "Hallelujah Hollywood." "Hallelujah Hollywood" was produced by defendants MGM Grand and Donn Arden. Neither MGM Grand nor Donn

Arden were parties to the 1954 contract: at the time the agreement was entered into, MGM Grand was not even in existence — MGM Grand was incorporated some fifteen years later in 1969.

Plaintiffs persist and argue that at all times pertinent to this action there existed a unity of interest and ownership between MGM and MGM Grand such that no separateness existed between the two with respect to the acts complained of. Plaintiffs urge that MGM Grand was in effect an "alter ego" of MGM and that the two corporations must be treated as a single entity for purposes of this suit.

Once again plaintiffs have failed to submit any convincing evidence in support of their conclusory allegations. In order to evoke the alter ego doctrine, the burden is on plaintiffs to prove, first, that there is a unity of interest and ownership between the corporations such that the separate personalities of the corporations no longer exist, and second, that failure to disregard the corporate entity would sanction a fraud or promote injustice. *Royal Industries v. St. Regis Paper Co.*, 420 F.2d 449 (9th Cir. 1969); *Hudson v. Wylie*, 242 F.2d 435 (9th Cir. 1956), *cert. denied*, 355 U.S. 828 (1957), *Von Brimer v. Whirlpool Corp.*, 362 F. Supp. 1182 (N.D. Cal. 1973). Plaintiffs have failed to convince the Court that there is such a unity of interest between MGM and MGM Grand that their separate personalities no longer exist. To the contrary, what little evidence there is on this point suggests that throughout the relevant time period, MGM and MGM Grand have acted as two separate and distinct entities. The evidence indicates that MGM had little or no involvement in the production of "Hallelujah Hollywood": Donn Arden was hired by MGM Grand; the contracts for the services of Arden and other personnel involved were

signed on behalf of MGM Grand; the revenues and costs associated with the production of "Hallelujah Hollywood" were accounted for by MGM Grand. Further, plaintiffs have failed to convince the Court that failure to pierce the corporate veil will sanction a fraud or promote injustice: there has been no convincing evidence of fraud on the part of MGM.

For the foregoing reasons, the Court concludes that plaintiffs' pendent claim arising out of the 1954 contract with MGM must fail.

IV

Remedy

Act IV of "Hallelujah Hollywood" infringed plaintiffs' copyright in the dramatico-musical play KISMET. Plaintiffs' remedy is governed by the 1909 Copyright Act, Act of March 4, 1909, as amended Act of July 30, 1947, 17 U.S.C. § 101 *et seq.* as it existed prior to the passage of the Copyright Act of 1976. 17 U.S.C., Trans. Supp. Prov., Sec. 112. Section 101 of the 1909 Copyright Act provided as follows:

> If any person shall infringe the copyright in a work protected under the copyright laws of the United States such person shall be liable . . . [t]o pay to the copyright proprietor such damages as the copyright proprietor may have suffered due to the infringement, as well as all the profits the infringer shall have made from such infringement, and in proving profits the plaintiff shall be required to prove sales only, and the defendant shall be required to prove every element of cost he claims.

Though many courts construed the statute as providing for cumulative awards of damages and profits, it is well settled in this Circuit that the statute provided for the greater of either damages *or* profits. *Sid & Marty Krofft v. McDonald's Corp., supra; Universal Pictures v. Harold Lloyd Corp., supra.* Because plaintiffs have failed to prove actual damages, the Court concludes that an award of that portion of defendants' profits attributable to the infringement is appropriate.

A. Actual Damages:

Actual damages are to be measured by the extent to which the market value of the copyrighted work has been injured or destroyed by the infringement, including the market value of revival or sequel rights. *Universal Pictures v. Harold Lloyd Corp., supra.* One of the tests of market value is to determine what a willing buyer would have been reasonably willing to pay to a willing seller for plaintiffs' work. *Sid & Marty Krofft v. McDonald's Corp., supra,* 562 F.2d at 1174. However since this determination of market value may be difficult, the Court may look to indirect evidence bearing on such value. Plaintiffs' actual damages may be said to equal the profits which plaintiffs might have accrued but for defendants' infringement, including loss of promising and substantial markets. 3 *Nimmer on Copyright* § 14.02. The copyright proprietor is competent to testify as to the market value of the copyrighted work, *Universal Pictures v. Harold Lloyd Corp., supra;* however, in the absence of convincing evidence as to the volume of sales which plaintiffs would have obtained but for the infringement, the lost profits measure of actual damages may be rejected as too speculative. 3 *Nimmer on Copyright* § 14.02. Moreover, while uncertainty will not preclude a recovery of actual damages if uncertainty is as to amount only, uncertainty may

preclude a recovery of actual damages where there is uncertainty as to the fact that actual damages are attributable to the infringement. *Universal Pictures v. Harold Lloyd Corp., supra.*

In the instant action, the Court is unconvinced that the market value of plaintiffs' work was in any way diminished as a result of defendants' infringement. Plaintiffs rely on the potentially self-serving testimony of plaintiff Edwin Lester and of Sid Kuller concerning alleged lost profits. Mr. Lester testified that he was General Director of the Los Angeles Civic Light Opera for forty years and that in 1975 he decided to revive plaintiffs' musical play KISMET. Lester testified that he believed the Las Vegas market was particularly ripe for a production of KISMET because the play lends itself to nudity and Las Vegas theaters permit such nudity. Lester also testified that at a minimum, plaintiffs could have expected a $7,500 per week royalty for producing the show, and that profits would have been a minimum of $10,000 a week in addition to the royalty. Mr. Kuller testified that he has been a writer, producer and director for forty years and that after he viewed defendants' "Hallelujah Hollywood" production he felt there was no chance of selling plaintiffs' musical play in Las Vegas because it would be in competition with Act IV of "Hallelujah Hollywood." The Court is unconvinced by this meager testimony with respect to the question of lost profits. Not only does the testimony with respect to the value of lost sales seem highly speculative, plaintiffs have completely failed to submit any convincing testimony on the question of how long a production of the musical play KISMET could have been expected to run in Las Vegas during the period in question. Accordingly, the Court rejects plaintiffs' attempt to measure actual damages by lost profits as too speculative. Moreover, plaintiffs have failed to submit other, more convincing evidence

regarding the alleged diminution in value of plaintiffs' property. Because plaintiffs have failed to establish *any* damages attributable to the infringement, the Court rejects actual damages as an inappropriate remedy.

B. Defendants' Profits:

As an alternative to actual damages, plaintiffs are entitled to the profits defendants have made which are attributable to the infringement. The burden is on plaintiffs to prove gross revenue. The burden then shifts to defendants to prove costs, both direct and indirect. Any uncertainty as to costs must be resolved in favor of the copyright proprietor. However, in the event the infringing material is combined with non-infringing material, profits may be apportioned. *Universal Pictures v. Harold Lloyd Corp., supra.*

In the instant action the parties agree that the gross revenue derived by MGM Grand from the presentation of "Hallelujah Hollywood" during the relevant time period was $24,191,690.89. However the parties disagree as to the amount of defendants' direct and indirect costs of production. Defendant MGM Grand, by Exhibit AU and the related testimony of Mr. John Campbell, submits that defendants' direct costs were $19,765,084. Plaintiffs contest this total, arguing that defendants have unfairly amortized preproduction costs over three years (the original estimated life of the show) rather than over the six and one half years the show actually ran. The Court concludes that Exhibit AU inaccurately reflects direct costs insofar as it provides for amortization of preproduction costs in the amount of $3,166,000 instead of $1,461,000 (the figure arrived at by amortizing total preproduction costs over a six and one half year period). With this adjustment in mind, as well as plaintiffs' other

arguments regarding direct costs, the Court accepts the remainder of Exhibit AU as accurately reflecting defendants' direct costs and finds that defendants' direct costs in producing "Hellelujah Hollywood" were $18,060,084.

Parties also disagree as to the amount of defendants' indirect costs of production. A proportionate share of defendants' overhead is deductible from gross revenues when calculating profits, at least where the infringement is not "conscious" or "deliberate." *See Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45 (2d Cir. 1939); *aff'd* 309 U.S. 390 (1940). The Court concludes that the infringement in this action was neither conscious nor deliberate, and that a proportionate share of defendants' overhead is deductible from gross revenue when calculating profits. MGM Grand, by Exhibit AU and the related testimony of Mr. Campbell, submits that defendants' indirect costs (including general and administrative costs, sales and advertising, telephone, engineering and maintenance costs, and capital expenses) were $3,641,960. This figure was arrived at by compilation from MGM Grand's ledger; indirect costs attributable to the production of "Hallelujah Hollywood" were allocated on the basis of revenue. The Court concludes that defendants have established that these items of general expense contributed to the production of "Hallelujah Hollywood," and that allocation on the basis of revenue is a fair and acceptable method of allocating that portion of MGM Grand's overhead to production of "Hallelujah Hollywood." Defendants' indirect costs of production were $3,641,960.

Based on the foregoing, the Court finds that defendants derived profits in the amount of $2,489,646 from the production of "Hallelujah Hollywood" during the period in question.

The Court's analysis does not end here, however. Plaintiffs concede that they are not entitled to recover all of the profits attributable to "Hallelujah Hollywood." To allow plaintiffs to recover all the profits attributable to Act IV when much of ACT IV embodied original material would impose a penalty rather than just compensation for the infringement. Such a penalty is not contemplated by the copyright statute. Rather, profits must be apportioned and plaintiffs awarded that portion of the profits which is attributable to defendants' infringement. *See Universal Pictures v. Harold Lloyd Corp., supra.* Plaintiffs' claim relates to only one act of a ten act review. Moreover, it is clear that even with respect to Act IV, the infringing material is only one of several elements that contributed to the segment. A portion of the profits attributable to Act IV must be allocated to elements other than the infringing material, including the talents of the performers, composers, choreographers and costume designers, as well as the attraction of the unique Ziefield Theatre with its elaborate stage effects. While no precise mathematical formula can be applied, the Court concludes in light of the evidence presented at trial and the entire record in the case, a fair approximation of the profits of Act IV attributable to the infringement is $22,000.

C. Statutory "In Lieu" Damages

Insofar as the Court has concluded that plaintiffs are entitled to recover $22,000.00 as the amount of defendants' profits attributable to the infringement, the Court finds that such an award is just and declines to award statutory "in lieu" damages under former 17 U.S.C. § 25. *See Universal Pictures v. Harold Lloyd Corp., supra.*

Conclusion:

Defendants' use of plaintiffs' musical score in combination with characters, scenery, props, settings and other visual representations of plaintiffs' dramatico-musical play exceeded the scope of the ASCAP license agreement and infringed plaintiffs' copyright in the musical play. Plaintiffs have established a claim for copyright infringement and are entitled to the greater of actual damages or profits attributable to the infringement. Insofar ás plaintiffs have failed to establish any actual damages attributable to the infringement, plaintiffs are entitled to recover profits attributable to the infringement. Judgment shall be entered in favor of plaintiffs and against defendants in the amount of $22,000.00.

The Clerk shall send, by United States mail, a copy of this Memorandum of Decision and Order to counsel for all parties.

DATED: October 21, 1983.

ROBERT J. KELLEHER
Senior District Judge

APPENDIX B

FRANK MUSIC CORPORATION, ROBERT WRIGHT, GEORGE FORREST, ANNE LEDERER (as Executrix of the Last Will of Charles Lederer), LUTHER DAVIS, and EDWIN LESTER, *Plaintiffs-Appellants-Cross-Appellees.*

v.

METRO-GOLDWYN-MAYER, INC., a Delaware corporation, MGM GRAND HOTEL, INC., a Nevada corporation, and DONN ARDEN, *Defendants-Appellees-Cross-Appellants.*

Nos. 83-6426, 83-6460.

United States Court of Appeals,
Ninth Circuit.

Argued and Submitted Jan. 9, 1985.
Decided Sept. 23, 1985.

Before FLETCHER, BOOCHEVER, and REINHARDT, Circuit Judges.

FLETCHER, Circuit Judge:

This copyright infringement suit arises out of defendants' use of five songs from plaintiffs' dramatico-musical play *Kismet* in a musical revue staged at defendant MGM Grand Hotel in 1974-76. After a bench trial, the district court found infringement and awarded the plaintiffs $22,000 as a share of defendants' profits. Plaintiffs appeal and defendants cross-appeal. We affirm in part, reverse in part, and remand.

I.

FACTS

The original version of *Kismet* was a dramatic play, written by Edward Knoblock in 1911. Knoblock copyrighted the play as an unpublished work in that year and again as a published work in 1912. Knoblock's copyright

expired in 1967, and the dramatic play *Kismet* entered the public domain.

In 1952, plaintiff Edwin Lester acquired the right to produce and musical stage production of the dramatic play *Kismet*. Lester hired plaintiffs Luther Davis and Charles Lederer to write the libretto and plaintiffs Robert Wright and George Forrest to write the music and lyrics for the musical adaptation. In 1953 and 1954, Lederer and Davis copyrighted their dramatico-musical play *Kismet*, and in 1953, Wright and Forrest assigned to plaintiff Frank Music Corporation the right to copyright all portions of the musical score written for *Kismet*. Frank Music subsequently obtained copyrights for the entire musical score and for each of the songs in the score.

In 1954, Lederer, Wright, and Forrest entered into a license agreement with Loew's, Inc., a predecessor of Metro-Goldwyn-Mayer, Inc., ("MGM, Inc.") granting to it the right to produce a musical motion picture based on plaintiffs' play. MGM released its motion picture version of *Kismet*, starring Howard Keel and Ann Blyth, in 1955.

The story presented in the MGM film and in plaintiffs' dramatico-musical play is essentially the same as that told in Knoblock's dramatic play. It is the tale of a day in the life of a poetic beggar named Hajj and his daughter, Marsinah. The story is set in ancient Baghdad, with major scenes in the streets of Baghdad, the Wazir's palace, an enchanted garden, and the Wazir's harem.

On April 26, 1974, defendant MGM Grand Hotel premiered a musical revue entitled Hallelujah Hollywood in the hotel's Ziegfield Theatre. The show was staged, produced, and directed by defendant Donn Arden. It featured ten acts of singing, dancing, and variety performances. Of the ten acts, four were labeled as "tributes" to MGM motion pictures of the past, and one was a

tribute to the "Ziegfield Follies." The remaining acts were variety numbers, which included performances by a live tiger, a juggler, and the magicians, Siegfried and Roy.

The Ziegfield Theatre, where *Hallelujah Hollywood* was performed, is a lavish showplace. Its special features, including huge elevators used to raise or lower portions of the stage and ceiling lifts capable of lowering performers down into the audience during the shows, reportedly provide impressive special effects.

Act IV of *Hallelujah Hollywood*, the subject of this lawsuit, was entitled "Kismet," and was billed as a tribute to the MGM movie of that name. Comprised of four scenes, it was approximately eleven and one-half minutes in length. It was set in ancient Baghdad, as was plaintiffs' play, and the characters were called by the same or similar names to those used in plaintiffs' play. Five songs were taken in whole or in part from plaintiffs' play. No dialogue was spoken during the act, and, in all, it contained approximately six minutes of music taken directly from plaintiffs' play.

The total running time of *Hallelujah Hollywood* was approximately 100 minutes, except on Saturday nights when two acts were deleted, shortening the show to 75 minutes. The show was performed three times on Saturday evenings, twice on the other evenings of the week.

On November 1, 1974, plaintiffs informed MGM Grand that they considered *Hallelujah Hollywood* to infringe their rights in *Kismet*. MGM Grand responded that it believed its use of plaintiffs' music was covered by its blanket license agreement with the American Society of Composers, Authors and Publishers ("ASCAP"). In 1965, plaintiffs had granted to ASCAP the right to license certain rights in the musical score of their play *Kismet*.

Plaintiffs filed this action, alleging copyright infringement, unfair competition, and breach of contract. MGM Grand continued to present *Hallelujah Hollywood*, including Act IV "Kismet," until July 16, 1976, when the hotel substituted new music in Act IV. In all, the "Kismet" sequence was used in approximately 1700 performances of the show.

II.

DISCUSSION

A. Scope of the ASCAP License

Paragraph one of the ASCAP license gives MGM Grand the right to perform publicly "non-dramatic renditions of the separate musical compositions" in the ASCAP repertory.[1] Paragraph three excludes from the license "dramatico-musical works, or songs [accompanied by] visual representation of the work from which the music is taken . . . ."[2] The district court addressed both of

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[1]Paragraph one provides:

> Society grants and Licensee accepts for a period commencing as of January 1, 1974 and ending December 31, 1978 a license to perform publicly by means of live entertainment or mechanical music (as defined in paragraph 2), and by no other means, at or in any part of section of the hotel or motel known as MGM Grand Hotel, 3645 Las Vegas Blvd. So., Las Vegas, NV. 29109 non-dramatic renditions of the separate musical compositions copyrighted or composed by members of Society and of which Society shall have the right to license the performing rights.

[2]Paragraph three provides:

> This license shall not extend to or be deemed to include (a) Oratories, choral, operatic or dramatico-musical works (including plays with music, revues and ballets) in their entirety, or songs or other excerpts from operas or musical plays accompanied either by words, pantomime, dance, or visual representation of the work from which the music is taken; but fragments of instrumental selections from such works may be instrumentally

these clauses and concluded that Act IV of *Hallelujah Hollywood* was nondramatic but contained visual representations of plaintiffs' play. The court therefore held that Act IV exceeded the scope of the ASCAP license. We review de novo the district court's interpretation of the agreement because the court interpreted the agreement from the face of the document and as a matter of law. *In re Financial Securities Litigation,* 729 F.2d 628, 631-32 (9th Cir.1984). We apply the clearly erroneous standard to its findings as to the sufficiency of the visual representations.

We agree with the result reached by the district court, but not with its approach. We agree that Act IV "Kismet" was accompanied by "visual representation" of plaintiffs' play. Accordingly, defendants' use was excluded from the ASCAP license by the express terms of paragraph three. We conclude, however, that there is no reason to consider, as the district court did, whether Act IV was "nondramatic."

The district court found the following "visual representations": plaintiffs' songs were performed in *Hallelujah Hollywood* by singers identified as characters from plaintiffs' *Kismet,* dressed in costumes designed to recreate *Kismet,* and the performance made use of locale, settings, scenery, props, and dance style music of the type used in plaintiffs' work.

The defendants do not challenge the finding that their production contained these visual representations. They

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rendered without words, dialogue, costume, accompanying dramatic action or scenic accessory, and unaccompanied by any stage action or visual representation (by motion picture or otherwise) of the work of which such music forms a part. (b) Any work (or part thereof) whereof the stage presentation and singing rights are reserved.

argue, instead, that the district court failed to give sufficient consideration to whether the visual representations in Act IV were "of the work from which the music is taken," i.e., plaintiffs' *Kismet.* Defendants suggest that this distinction is important because plaintiffs' *Kismet* is a derivative work. They argue that many of the visual representations, (e.g., street scenes in ancient Baghdad, swarming bazaars, and an oriental palace), could be said to be derived from Edward Knoblock's 1911 dramatic version of *Kismet* rather than from plaintiffs' *Kismet.* Since Knoblock's play is in the public domain, defendants contend these visual representations are not protectable by plaintiffs' copyright. Defendants further argue that other elements of the "visual representations," such as choreography style and character names, also are not protectable by copyright.

We find defendants' arguments unpersuasive for two reasons. First, their suggestion that they might have derived portions of Act IV from Knoblock's 1911 play is directly contradicted in the record. Arden created Act IV as a tribute to the MGM musical *Kismet,* which was derived from plaintiffs' play. While preparing Act IV, he obtained the Broadway score of plaintiffs' play and screened the MGM motion picture. The record does not show that any of Act IV was based on Knoblock's 1911 dramatic version of Kismet.

More important, defendants' argument is unpersuasive because it is simply irrelevant. The question we face is not whether the "visual representations" are copyrightable, but whether the use of a copyrighted work exceeds the scope of an ASCAP license because visual representations accompanied the songs. The license agreement does not refer to "copyrightable" visual representations. The district court was not clearly erroneous in finding that

Act IV "Kismet" was accompanied by sufficient[3] visual representations derived from plaintiffs' play to place the songs' use beyond the scope of the ASCAP license.

The district court properly concluded that defendants infringed plaintiffs' copyrights in *Kismet.*

B. Recovery for Infringement

The Copyright Act of 1909[4] provided three forms of recovery to a plaintiff whose copyright had been infringed: actual damages, infringer's profits, or statutory "in lieu" damages. The Act provided for recovery of "such damages as the copyright proprietor may have suffered due to the infringement, as well as all the profits which the infringer shall have made from such an infringement. . . ." 17 U.S.C. § 101(b) (1970). The Act further provided that a court could award "in lieu of actual damages and profits, such damages as to the court shall appear to be just" within certain prescribed minima and maxima. *Id.*

A court making an award for copyright infringement must, if possible, determine both the plaintiff's actual damages and the defendant's profits derived from the infringement. *Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157, 1172 (9th

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[3]Whether some visual representations, less significant than those presented here (e.g., performance of the same five songs as those performed here by a single character dressed in ancient Arabian costume), would be enough to take a performance out of the ASCAP license is a more difficult question, which we need not resolve.

[4]Applicable here since the actions complained of all occurred prior to January 1, 1978. *See* Copyright Revision Act of 1976, Pub.L. No. 94-533, § 112, 90 Stat. 2541, 2600; *Kamar International, Inc. v. Russ Berrie & Co.*, 752 F.2d 1326, 1329 (9th Cir.1984). The citations to the Copyright act contained in this opinion are to the 1909 Act, unless otherwise indicated.

Cir.1977) (*Krofft I*). In this circuit, we have construed section 101(b) of the 1909 Act as allowing recovery of the greater of the plaintiff's damage or the defendant's profits. *Krofft I*, 562 F.2d at 1176; *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d 354, (9th Cir.1947).[5]

1. Actual Damages

"Actual damages" are the extent to which the market value of a copyrighted work has been injured or destroyed by an infringement. 3 M. Nimmer, *Nimmer on Copyright* § 14.02, at 14-6 (1985). In this circuit, we have stated the test of market value as "what a willing buyer would have been reasonably required to pay to a willing seller for plaintiffs' work." *Krofft I*, 562 F.2d at 1174.

The district court declined to award actual damages. The court stated that it was "unconvinced that the market value of plaintiffs' work was in any way diminished as a result of defendant's infringement." We are obliged to sustain this finding unless we conclude it is clearly erroneous. Fed.R.Civ.P. 52(a); *see County of Ventura v. Blackburn*, 862 F.2d 515, 521 (9th Cir.1966); *Shapiro, Bernstein & Co. v. 4636 S. Vermont Ave., Inc.*, 367 F.2d 236, 241 (9th Cir.1966).

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[5]Other circuits disagree with our interpretation of the 1909 Act and allow recovery of both actual damages and the infringer's profits. *See, e.g., Miller v. Universal City Studios, Inc.*, 650 F.2d 1365, 1376 (5th Cir.1981); *Lottie Joplin Thomas Trust v. Crown Publishers, Inc.*, 456 F.Supp. 531 (S.D.N.Y.1977), *aff'd*, 592 F.2d 651 (2d Cir.1978). Under the current Copyright Act, 17 U.S.C. § 504 (1982), a prevailing plaintiff is entitled to recover both actual damages and the infringer's profits. *See Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1023 (9th Cir.1985); 3 M. Nimmer, *Nimmer on Copyright* §14.01[A] (1985).

Plaintiff's contend the district court's finding is clearly erroneous[6] in light of the evidence they presented concerning the royalties *Kismet* could have earned in a full Las Vegas production. Plaintiffs did offer evidence of the royalties *Kismet* had earned in productions around the country. They also introduced opinion testimony, elicited from plaintiff Lester and from *Kismet*'s leasing agent, that a full production of *Kismet* could have been licensed in Las Vegas for $7,500 per week. And they introduced other opinion testimony to the effect that *Hallelujah Hollywood* had destroyed the Las Vegas market for a production of plaintiffs' *Kismet.*

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[6]Plaintiffs additionally argue that we should review the district court's findings de novo because, they contend, the court erred in applying the actual damages test set forth in *Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157 (9th Cir.1977).

The district court stated the test as "what a willing buyer would have been reasonably *willing* to pay to a willing seller for plaintiff's work," (emphasis added), rather than "what a willing buyer would have been *reasonably required* to pay" for the property, *Id.* at 1174 (emphasis added). This distinction is important, plaintiffs contend, because when an infringement destroys any potential market for the copyrighted work, it becomes impossible to determine what a willing buyer would have been "reasonable willing" to pay; there simply is no willing buyer left.

Plaintiffs misconstrue the test stated by the district court and misconceive the nature of the *Krofft* test itself. The test is not what some buyer *was* willing to pay, but what a buyer *would have* been willing to pay for a use of a plaintiff's work similar to the defendant's use. In other words, "the *Krofft* test seeks to approximate what a reasonable market price would have been at the time of the infringement, not afterwards. The trial court's statement of the *Krofft* test takes into account the essence of that test. Any misstatement is trivial, and is not error. Therefore, we review the district court's findings as to damages under the clearly erroneous test.

In a copyright action, a trial court is entitled to reject a proffered measure of damages if it is too speculative. *See Peter Pan Fabrics, Inc. v. Jobella Fabrics, Inc.*, 329 F.2d 194, 196-97 (2d Cir.1964). Although uncertainty as to the amount of damages will not preclude recovery, uncertainty as to the fact of damages may. *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d at 369; *see also* 8 M. Nimmer, *supra*, § 14.02, at 14-8 to -9. It was the *fact* of damages that concerned the district court. The court found that plaintiffs "failed to establish any damages attributable to the infringement." (emphasis in original). This finding is not clearly erroneous.

Plaintiffs offered no disinterested testimony showing that *Hallelujah Hollywood* precluded plaintiffs from presenting *Kismet* at some other hotel in Las Vegas. It is not implausible to conclude, as the court below apparently did, that a production presenting six minutes of music from *Kismet*, without telling any of the story of the play, would not significantly impair the prospects for presenting a full production of that play.[7] Based on the record

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[7]Another panel of this court considered a similar problem recently in *Cream Records, Inc. v. Jos. Schlitz Brewing Co.*, 754 F.2d 826 (9th Cir.1985) (interpreting the 1976 Act). In *Cream Records*, the jury found that Schlitz and its advertising agency infringed Cream's copyright in "The Theme from Shaft", by using a ten-note ostinato from the song in a television commercial. The district court awarded $12,000 as actual damages for loss of licensing fees. We concluded that the award was insufficient, stating:

> The only evidence before the court was that unauthorized use of the Shaft theme music in Schlitz's commercial ended Cream's opportunity to license the music for this purpose. There was no evidence that Schlitz sought, or Cream was willing to grant, a license for use of less than the entire copyrighted work, that a license limited to the portion used in the commercial would have had less value, or that use limited to this portion would have had a less devastating effect upon Cream's opportunity to license to

presented, the district court was not clearly erroneous in finding that plaintiffs' theory of damages was uncertain and speculative.[8]

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another. Since defendants' unauthorized use destroyed the value of the copyrighted work for this purpose, plaintiff was entitled to recover that value as damages.

Id. at 827-28 (citation omitted).

In *Cream Records*, the evidence showed that another advertiser had approached Cream for a license for the song, but withdrew when the Schlitz commercial was aired. "There was testimony that use of a well-known popular song in a commercial destroys its value to other advertisers for that purpose." *Id.* at 827.

The evidence concerning the effect of defendants' infringement is far less convincing in our case. Plaintiffs did introduce testimony that the infringement had destroyed the Las Vegas market for a full production of *Kismet*, but that testimony came from *Kismet*'s leasing agent, not a disinterested party. We agree with the district court's characterization of this evidence as "meager," and we cannot conclude that the court clearly erred in discrediting it.

[8]Plaintiffs raise several other arguments concerning actual damages, which require only brief discussion.

Plaintiffs argue that the trial court should have accepted their evidence because the defendants did not offer contrary evidence. But a trier of fact may properly reject uncontradicted testimony so long as it does so with good reason. *NLRB v. Klaue*, 523 F.2d 410, 414 (9th Cir.1975). Such evidence properly may be rejected because of its inherent unbelieveability, because a witness's demeanor raises doubt as to his sincerity, or because the testimony is clouded with uncertainty. *Woods v. United States*, 724 F.2d 1444, 1452 (9th Cir.1984); *Lewis & Taylor, Inc. v. Commissioner*, 447 F.2d 1074, 1077 (9th Cir. 1971).

Plaintiffs suggest that actual damages to the Las Vegas market should be presumed, that such damages are the "natural and probable result" of an unauthorized performance. Yet, plaintiffs rely for this conclusion on cases in which trial courts found damages merely as a matter of fact, *see, e.g., Metro-Goldwyn-Mayer, Inc. v. Showcase Atlanta Cooperative Productions, Inc.*, 479 F.Supp. 351 (N.D.Ga. 1979), or presumed irreparable injury for purposes of issuance of

2. Infringer's Profits

As an alternative to actual damages, a prevailing plaintiff in an infringement action is entitled to recover the infringe's profits to the extent they are attributable to the infringement. 17 U.S.C. § 101(b); *Krofft*, 562 F.2d at 1172. In establishing the infringer's profits, the plaintiff is required to prove only the defendant's sales; the burden then shifts to the defendant to prove the elements of costs to be deducted from sales in arriving at profit. 17 U.S.C. § 101(b). Any doubt as to the computation of costs or

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preliminary injunctions, *see, e.g., Unceda Doll Co. v. Regent Baby Products Corp.*, 355 F.Supp. 438, 445 (E.D.N.Y.1972). These cases do not suggest, as plaintiffs apparently contend, that a copyright owner is relieved from or aided in proving actual damages by some presumption. *See Shapiro, Bernstein & Co. v. 4636 S. Vermont Ave., Inc.*, 367 F.2d 236, 241 (9th Cir.1966) (plaintiff in copyright action who failed to produce evidence of damages could not complain when trial court determined that no damages were proved).

Plaintiffs further argue that the court accorded so little weight to plaintiff Edwin Lester's testimony concerning the value of *Kismet* as to be tantamount to excluding it. While *Universal Pictures Corp. v. Harold Lloyd Corp.*, 162 F.2d 354, 369 (9th Cir.1947), held that a copyright owner may testify as to the value of his property, that case did not hold that a court may not consider the self-serving nature of such testimony. *See Runge v. Lee*, 441 F.2d 579, 582 (9th Cir.) ("*Credible* testimony by the owner of literary property regarding its value can provide an adequate evidentiary basis for an award of damages." (emphasis added)), *cert. denied*, 404 U.S. 887, 92 S.Ct. 197, 30 L.Ed.2d 169 (1971). The district court was entitled to give Mr. Lester's testimony slight weight.

Finally, plaintiffs contend the district court improperly excluded as irrelevant evidence of royalties other Broadway shows had earned in Las Vegas productions. The exclusion was not error. *See Universal Pictures Corp. v. Harold Lloyd Corp.*, 162 F.2d at 372, 374-75 (action for violation of motion picture copyright; not error to exclude evidence of value of another movie as not relevant to value of movie involved).

profits is to be resolved in favor of the plaintiff. *Shapiro, Bernstein & Co. v. Remington Records, Inc.*, 265 F.2d 263 (2d Cir.1959). If the infringing defendant does not meet its burden of proving costs, the gross figure stands as the defendant's profits. *Russell v. Price*, 612 F.2d 1123, 1130-31 (9th Cir. 1979), *cert. denied*, 446 U.S. 952, 100 S.Ct. 2919, 64 L.Ed.2d 809 (1980).

The district court, following this approach, found that the gross revenue MGM Grand earned from the presentation of *Hallelujah Hollywood* during the relevant time period was $24,191,690. From that figure, the court deducted direct costs of $18,060,084 and indirect costs (overhead) of $3,641,960, thus arriving at a net profit of $2,489,646.

Plaintiffs' challenge these computations on a number of grounds. Several of the objections plaintiffs raise require only brief discussion; we dispose of these in the margin.[9]

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[9]Plaintiffs argue that the trial court should have granted their motion to exclude evidence of costs as a sanction for failure to cooperate in discovery. Fred.R.Civ.P. 37(d). The trial court denied plaintiffs' motion on the grounds that both parties had been dilatory in pursuing discovery, and that the plaintiffs could not show that they suffered any prejudice as a result of defendants' alleged failures. A district court has wide discretion in controlling discovery and its rulings will not be disturbed absent a clear abuse of discretion. *See Reygo Pacific Corp. v. Johnston Pump Co.*, 680 F.2d 647, 649 (9th Cir. 1982). We find no abuse here.

Plaintiffs next argue that the district court should have excluded an exhibit prepared by MGM Grand to show an allocation of costs and expenses to its production of *Hallelujah Hollywood*. They contend the underlying records from which the summary was prepared were never provided to plaintiffs for inspection, as required by Fed.R.Evid. 1006. But the trial court, after a full hearing on this issue, concluded the underlying records had been made available to plaintiffs. Indeed, plaintiffs' counsel stated, "I was satisfied with the financial documents that they made available." The requirements for

But three of their objections are more serious, and deserve closer scrutiny. Plaintiffs claim the district court erred in allowing deductions for overhead expenses for two reasons: because the infringement was "conscious and deliberate," and because defendants failed to show that each item of claimed overhead assisted in the production of the infringement. Plaintiffs also contend the court erred in not including in gross profits some portion of MGM's earnings on its hotel and gaming operations.

Rule 1006 are met when the trial judge ascertains that the underlying documents are made available for inspection, *City of Phoenix v. Com/Systems, Inc.*, 706 F.2d 1033, 1038 (9th Cir.1983), and this is so even if opposing counsel fails to avail himself of the opportunity to review the documents. *United States v. Denton*, 556 F.2d 811, 816 (6th Cir.), *cert denied*, 434 U.S. 892, 98 S.Ct. 269, 54 L.Ed.2d 178 (1977). The district court did not abuse its discretion in admitting defendants' exhibit.

Plaintiffs also challenge admission of defendants' summary of costs on the ground that it was "self-calculated" and "unverified." Rule 1006 does not contemplate that summaries must be prepared by someone independent of the party offering the summary. Plaintiffs had ample opportunity to cross-examine MGM Grand's Vice-President of Finance, under whose direction the summary was prepared. Any inaccuracies in the cost estimates could have been brought out on this cross-examination. The district court did not abuse its discretion. *See Frank Horton & Co. v. Cook Electric Co.*, 356 F.2d 485, 492 (7th Cir.), *cert. denied*, 384 U.S. 952, 86 S.Ct. 1572, 16 L.Ed.2d 548 (1966).

Finally, plaintiffs contend that any evidence of MGM Grand's indirect costs was inadmissible since such evidence was not mentioned in the pretrial conference order. Fed.R.Civ.P. 16. Aside from the fact that it is arguable whether the language of the order omits mention of this evidence, the issue was litigated at trial and thus the pretrial order may be deemed to have been amended by the consent of the parties. *See Simpson Timber Co. v. Palmberg Construction Co.*, 377 F.2d 380, 386 (9th Cir.1967); *Perfection Cobey Co. v. City Tank Corp.*, 597 F.2d 419, 420 (4th Cir.1979).

A portion of an infringer's overhead properly may be deducted from gross revenues to arrive at profits, at least where the infringement was not willful, conscious, or deliberate. *Kamar International, Inc. v. Russ Berrie & Co.*, 752 F.2d 1326, 1331 (9th Cir.1984); *Sammons v. Colonial Press, Inc.*, 126 F.2d 341, 351 (1st Cir.1942); 3 M. Nimmer, *supra*, § 14.03[B], at 14-16.1. Plaintiffs argue that the infringement here was conscious and deliberate, but the district court found to the contrary. The court's finding is not clearly erroneous. Defendants believed their use of *Kismet* was protected under MGM Grand's ASCAP license. Although their contention ultimately proved to be wrong, it was not implausible. Defendants reasonably could have believed that their production was not infringing plaintiffs' copy-rights, and, therefore, the district court was not clearly erroneous in finding that their conduct was not willful. *See Kamar International, Inc. v. Russ Berrie & Co.*, 752 F.2d at 1331.

We find more merit in plaintiffs' second challenge to the deduction of overhead costs. They argue that defendants failed to show that each item of claimed overhead assisted in the production of the infringement. The evidence defendants introduced at trial segregated overhead expenses into general categories, such as general and administrative costs, sales and advertising, and engineering and maintenance. Defendants then allocated a portion of these costs to the production of *Hallelujah Hollywood* based on a ratio of the revenues from that production as compared to MGM Grand's total revenues. The district court adopted this approach.[10]

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[10]With one exception, the court accepted the defendant's cost calculations in their entirety. The exception was that defendants had amortized preproduction costs for *Hallelujah Hollywood* over the first three years of the show's run, totalling $3,166,000 for the period in

We do not disagree with the district court's acceptance of the defendants' method of allocation, based on gross revenues. Because a theoretically perfect allocation is impossible, we require only a "reasonably acceptable formula." *Sammons v. Colonial Press, Inc.*, 126 F.2d at 349; *see Kamar International, Inc. v. Russ Berrie & Co.*, 752 F.2d at 1333. We find, as did the district court, that defendants' method of allocation is reasonably acceptable.

We disagree with the district court, however, to the extent it concluded the defendants adequately showed that the claimed overhead expenses actually contributed to the production of *Hallelujah Hollywood.* Recently, in *Kamar International,* we stated that a deduction for overhead should be allowed "only when the infringer can demonstrate that [the overhead expense] was of actual assistance in the production, distribution or sale of the infringing product." 752 F.2d at 1332 (citation omitted); *accord Sheldon v. Metro-Goldwyn-Mayer Pictures, Co.*, 106 F.2d 45, 54 (2d Cir.1939) (*Sheldon I*), *aff'd*, 309 U.S. 390, 60 S.Ct. 681, 84 L.Ed. 825 (1940). We do not take this to mean that an infringer must prove his overhead expenses and their relationship to the infringing production in minute detail. *See Sheldon I*, 106 F.2d at 52; *Sterns-Roger Manufacturing Co. v. Ruth*, 87 F.2d 35, 41-42 (10th Cir. 1936). Nonetheless, the defendant bears the burden of explaining, at least in general terms, how claimed overhead actually contributed to the production of the infringing work. *See Kamar International, Inc. v. Russ Berrie & Co.*, 752 F.2d at 1333; *Taylor v. Meirick*, 712 F.2d 1112, 1121-22 (7th Cir.1983) ("It is too much to ask a plaintiff

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question. The district court concluded, instead, that preproduction costs should be amortized over the full six and one-half year run of the show, making the total $1,461,000 for the relevant period.

who has proved infringement also to do the defendant's cost accounting.").

We do not doubt that some of defendants' claimed overhead contributed to the production of *Hallelujah Hollywood.* The difficulty we have, however, is that defendants offered no evidence of what costs were included in general categories such as "general and administrative expenses," nor did they offer any evidence concerning how these costs contributed to the production of *Hallelujah Hollywood.* The defendants contend their burden was met when they introduced evidence of their total overhead costs allocated on a reasonable basis. The district court apparently agreed with this approach. That is not the law of this circuit. Under *Kamar International,* a defendant additionally must show that the categories of overhead actually contributed to sales of the infringing work. 752 F.2d at 1332. We can find no such showing in the record before us. Therefore, we conclude the district court's finding that "defendants have established that these items of general expense [the general categories of claimed overhead] contributed to the production of 'Hallelujah Hollywood' " was clearly erroneous.

Plaintiffs next challenge the district court's failure to consider MGM Grand's earnings on hotel and gaming operations in arriving at the amount of profits attributable to the infringement. The district court received evidence concerning MGM Grand's total net profit during the relevant time period, totaling approximately $395,000,000, but its memorandum decision does not mention these indirect profits and computes recovery based solely on the revenues and profits earned on the production of *Hallelujah Hollywood* (approximately $24,000,000 and $2,500,000 respectively). We surmise from this that the district court determined plaintiffs were not entitled

to recover indirect profits, but we have no hint as to the district court's reasons.

Whether a copyright proprietor may recover "indirect profits" is one of first impression in this circuit. We conclude that under the 1909 Act indirect profits may be recovered.

The 1909 Act provided that a copyright proprietor is entitled to "all the profits which the infringer shall have made from such infringement . . ." 17 U.S.C. § 101(b). The language of the statute is broad enough to permit recovery of indirect as well as direct profits. *See* 3 M. Nimmer, *supra,* § 14.03[A], at 14-15; *cf. Nucor Corp. v. Tennessee Forging Steel Service, Inc.,* 513 F.2d 151, 153 (8th Cir.1975) (common law copyright infringement action; issue of whether infringing use of copyrighted architectural plans resulted in lower manufacturing costs to defendants was properly put to jury). At the same time, a court may deny recovery of a defendant's profits if they are only remotely or speculatively attributable to the infringement. *See* 3 M. Nimmer, *supra,* § 14.03[A]; *see, e.g. Roy Export Co. v. Columbia Broadcasting System, Inc.,* 503 F.Supp. 1137, 1156-57 (S.D.N.Y. 1980] (profits from an infringing unsponsored television broadcast could not be ascertained since benefit received by CBS "consists of unmeasurable good will with affiliates and increased stature and prestige vis-a-vis competitors."), *aff'd,* 672 F.2d 1095 (2d Cir.), *cert. denied,* 459 U.S. 826, 103 S.Ct. 60, 74 L.Ed.2d 63 [1982].

The allowance of indirect profits was considered in *Sid & Marty Kroff Television Productions, Inc. v. McDonald's Corp.,* 1983 Copyright L.Rep. (CCH) ¶ 25,572 at 18,381 (C.D.Cal. 1983) *(Krofft II), on remand from* 562 F.2d 1157 (9th Cir. 1977), a case involving facts analogous to those presented here. The plaintiffs, creators of the "H.R.

Pufnstuf" children's television program, alleged that they were entitled to a portion of the profits McDonald's earned on its food sales as damages for the "McDonaldland" television commercials that infringed plaintiffs' copyright. The district court rejected as speculative the plaintiffs' formula for computing profits attributable to the infringement. However, the court's analysis and award of in lieu damages indicate that it considered indirect profits recoverable. The court stated, in awarding $1,044,000 in statutory damages, that "because a significant portion of defendants' profits made from the infringement are not ascertainable, a higher award of [statutory] in lieu damages is warranted." *Id.* at 18,384; *see also Crown Records Inc. v. Jos. Schlitz Brewing Co.*, 754 F.2d 826, 828-29 (9th Cir.1985) (discussed *supra* note 7) (awarding profits from the sale of malt liquor for Schlitz's infringing use ofd plaintiff's song in television commercial).

Like the television commercials in *Krofft II, Hallelujah Hollywood* had promotional value. Defendants maintain that they endeavor to earn profits on all their operations and that *Hallelujah Hollywood* was a profit center. However, that fact does not detract from the promotional purposes of the show — to draw people to the hotel and the gaming tables. MGM's 1976 annual report states that "[t]he hotel and gaming operations of the MGM Grand — Las Vegas continue to be materially enhanced by the popularity of the hotel's entertainment [, including] 'Hallelujah Hollywood', the spectacularly successful production revue . . ." Given the promotional nature of *Hallelujah Hollywood*, we conclude indirect profits from the hotel and gaming operations, as well as direct profits from the show itself, are recoverable if ascertainable.

3. Apportionment of Profits

How to apportion profits between the infringers and the plaintiffs is a complex issue in this case. Apportionment of direct profits from the production as well as indirect profits from the hotel and casino operations are involved here, although the district court addressed only the former at the first trial.

When an infringer's profits are attributable to factors in addition to use of plaintiff's work, an apportionment of profits is proper. *Sheldon v. Metro-Goldwyn Pictures, Inc.*, 309 U.S. 390, 405-06, 60 S.Ct. 681, 686-87, 84 L.Ed. 825 (1939) (*Sheldon II*); *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d at 377. The burden of proving apportionment, (i.e., the contribution to profits of elements other than the infringed property), is the defendant's. *Lottie Joplin Thomas Trust v. Crown Publishers, Inc.*, 592 F.2d 651, 657 (2d Cir. 1978). We will not reverse a district court's findings regarding apportionment unless they are clearly erroneous. *See Shapiro, Bernstein & Co. v. 4636 S. Vermont Ave., Inc.*, 367 F.2d at 241-42.

After finding that the net profits earned by *Hallelujah Hollywood* was approximately $2,500,000, the district court offered the following explanation of apportionment:

> While no precise mathematical formula can be applied, the court concludes in light of the evidence presented at trial and the entire record in this case, a fair approximation of the profits of Act IV attributable to the infringement is $22,000.

The district court was correct that mathematical exactness is not required. However, a reasonable and just apportionment of profits is required. *Sheldon II*, 309 U.S. at 408, 60 S.Ct. at 688; *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d at 377.

Arriving at a proper method of apportionment and determining a specific amount to award is largely a factual exercise. Defendants understandably argue that the facts support the district court's award. They claim that the infringing material, six minutes of music in Act IV, was an unimportant part of the whole show, that the unique features of the Ziegfield Theater contributed more to the show's success than any other factor. This is proved, they argue, by the fact that when the music from *Kismet* was removed from *Hallelujah Hollywood* in 1976, the show suffered no decline in attendance and the hotel received no complaints.

Other evidence contradicts defendants' position. For instance, defendant Donn Arden testified that *Kismet* was "a very important part of the show" and "[he] hated to see it go." Moreover, while other acts were deleted from the shortened Saturday night versions of the show, Act IV "Kismet" never was.

We reject defendants' contention that the relative unimportance of the *Kismet* music was proved by its omission and the show's continued success thereafter. *Hallelujah Hollywood* was a revue, comprised of many different entertainment elements. Each element contributed siginficantly to the show's success, but no one element was the sole or overriding reason for that success. Just because one element could be omitted and the show goes on does not prove that the element was not important in the first instance and did not contribute to establishing the show's initial popularity.

The difficulty in this case is that the district court has not provided us with any reasoned explanation of or formula for its apportionment. We know only the district court's bottom line: that the plaintiffs are entitled to $22,000. Given the nature of the infringement, the charac-

ter of the infringed property, the success of defendants' show, and the magnitude of the defendants' profits, the amount seems to be grossly inadequate. It amounts to less than one percent of MGM Grand's profits from the show, or roughly $13 for each of the 1700 infringing performances.[11]

On remand, the district court should reconsider its apportionment of profits, and should fully explain on the record its reasons and the resulting method of apportionment it uses. Apportionment of indirect profits may be a part of the calculus. If the court finds that a reasonable, nonspeculative formula cannot be derived, or that the amount of profits a reasonable formula yields is insufficient to serve the purposes underlying the statute, then the court should award statutory damages. *See infra* Part II.B.5.

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[11]The apportionment percentages similar cases are markedly higher. *See, e.g., Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d at 377 (infringing use of one comedy sketch in motion picture; court affirmed award of 20% of infringing movie's profits); *MCA, Inc. v. Wilson*, 677 F.2d 180, 181-82 (2d Cir.1981) (defendants copied substantial portion plaintiff's song, "Boogie Woogie Bugle Boy", substituted "dirty" lyrics, and performed the song as a portion of an erotic nude show; court affirmed special master's award of approximately $244,000 representing 5% of defendants' total profits from the show); *Lottie Joplin Thomas Trust v. Crown Publishers, Inc.*, 592 F.2d at 657 (infringing songs filled one side of five-record set; court affirmed award of 50% of profits because inclusion of infringing songs made record set the only "complete" collection of Scott Joplin's works); *Abkco Music, Inc. v. Harrisongs Music, Ltd.*, 508 F.Supp. 798, 800-801 (S.D.N.Y.1981) (infringing song reproduced on one side of single record, "flip side" contained noninfringing song, court awarded 70% of profits from sales of the single because infringing song was more popular than noninfringing song; similarly, court awarded 50% of profits for reproduction of same song on album containing twenty-one other songs).

4. Liability of Joint Infringers

The district court granted judgment of $22,000 "against defendants" in the plural. Yet if the district court intended that each of the defendants be jointly and severally liable for the $22,000 award, this was error.

When a copyright is infringed, all infringers are jointly and severally liable for plaintiffs' *actual damages* but each defendnat is severally liable for his or its own illegal *profit*: one defendant is not liable for the profit made by another. *MCA, Inc. v. Wilson*, 677 F.2d 180, 186 (2d Cir.1981): 3 M. Nimmer, *supra*, § 12-14[C][3], at 12-50: *see Cream Records, Inc. v. Jos. Schlitz Brewing Co.*, 754 F.2d at 829.

The rule of several liability for profits applies, at least, where defendants do not act as partners, or "practically partners." *Compare Belford, Clarke & Co. v. Scribner*. 144 U.S. 488, 507-508, 12 S.Ct. 734, 740, 36 L.Ed. 514 (1892) (printer held jointly liable for publisher's profits on infringing book since they were "practically partners."), *with Sammons v. Colonial Press, Inc.*, 126 F.2d at 346-47 (court refused to hold printer jointly liable for publisher's profits since printer was paid a fixed price for work, payable whether or not infringing books made profit). Defendants assert that Arden and MGM Grand are jointly liable since they "worked closely together" in producting the infringing work. This is a fact question for the district court to consider on remand. The court should consider whether Arden was an employee or an independent contractor rather than a partner. Relevant to this determination, among others, are such factors as whether Arden received a fixed salary or a percentage of profits and whether he bore any of the risk of loss on the production.

Arden may be liable for profits he earned in connection with the production of *Hallelujah Hollywood*, but amounts paid to him as salary are not to be considered as profits. *See MCA, Inc. v. Wilson*, 677 F.2d at 186. But if Arden did earn profits from the production, such as royalties, he is liable for a proportionate amount of these. Concomitantly, defendant MGM Grand would be entitled to deduct any such royalties as costs in arriving at its own profits. *See Smith v. Little, Brown & Co.*, 396 F.2d 150, 151-52 (2d Cir.1968: *see Cream Records, Inc. v. Jos. Schlitz Brewing Co.*, 754 F.2d at 829 (interpreting the 1976 Act).

The court must also determine whether MGM, Inc., MGM Grand's parent corporation, should be held liable for the infringement. A parent corporation cannot be held liable for the infringing action of its subsidiary unless there is a substantial and continuing connection between the two with respect to the infringing acts. 3 M. Nimmer, *supra*, § 12.04[A], at 12-44 to -45.

If the district court finds a "substantial and continuing connection" between MGM Grand and MGM, Inc., then MGM, Inc. may also be liable for its profits. But to the extent any such profits are merely passed on from its subsidiary, MGM Grand, the plaintiffs should be given only one recovery, to be satisfied by either MGM, Inc. or MGM Grand.

5. Statutory "In Lieu" Damages[12]

Statutory damages are intended as a substitute for profits or actual damage. When injury is proved but

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[12]Plaintiffs contend that the district court did not impose any award against defendants MGM, Inc. and Donn Arden, and therefore an award of statutory damages is mandatory. We do not resolve this issue because, as we noted above, *see supra* Part II.B.4, it is not clear which parties the district court intended to be held liable.

neither the infringer's profits nor the copyright holder's actual damages can be ascertained, an award of statutory "in lieu" damages is mandatory. *Russell v. Price,* 612 F.2d at 1131-32; *Pye v. Mitchell,* 574 F.2d 476, 481 (9th Cir.1978); *Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.,* 562 F.2d 1157, 1178-79 (9th Cir.1977) (*Krofft I*). But if either profits or actual damages or both can be ascertained, the trial court has discretion to award statutory damages. *Krofft I,* 562 F.2d at 1178. Such an award must be in excess of the amount that would have been awarded as profits or actual damages. *Id.* We review a district court's award or refusal to award statutory damages for abuse of discretion. *Russell v. Price,* 612 F.2d at 1132.

A determination as to whether to award statutory damages must abide the district court's reconsideration of whether to award damages based on profits. On remand, the district court should keep in mind the purposes underlying the remedy provisions of the Copyright Act, i.e., to provide adequate compensation to the copyright holder and to discourage wrongful conduct and deter infringements. *See F.W. Woolworth Co. v. Contemporary Arts, Inc.,* 344 U.S. 228, 233, 73 S.Ct. 222, 225, 97 L.Ed. 276 (1952); *Kamar International, Inc. v. Russ Berrie & Co.,* 752 F.2d at 1382; *Russell v. Price,* 612 F.2d at 1131. Thus, in determining whether to exercise its discretion to award statutory damages, the district court must consider whether the amount of profits that have been proved accomplish the purposes of the statute. If not, it should exercise its discretion to award statutory "in lieu" damages that do effectuate the statutory purposes.

We note, however, that plaintiffs' argument presents an unresolved issue: How the *Krofft* rule applies in the context of multiple infringers, when actual damages cannot be proved and profits of some, but not all, infringers can be proved.

The $22,000 awarded by the district court obviously is too little to discourage wrongful conduct or to deter infringement.

6. Attorneys' Fees

The plaintiffs requested that the district court award attorneys' fees under 17 U.S.C. § 116 (1970). The court omitted mention of plaintiffs' request in its memorandum decision, although during the course of the proceedings, it had noted that the issue was before it. On remand, the district court can address this issue.

C. Plaintiffs' Other Claims

In addition to claims for copyright infringement, plaintiffs pleaded claims for unfair competition and breach of contract. The district court rejected both of these ancillary claims. We affirm.

1. Unfair Competition

To prevail on a claim of unfair competition, a plaintiff must demonstrate a likelihood of confusion. *Walt Disney Productions v. The Air Pirates,* 581 F.2d 751, 760 (9th Cir.1978), *cert. denied,* 439 U.S. 1132, 99 S.Ct. 1054, 59 L.Ed.2d 94 (1979); *Alpha Industries, Inc. v. Alpha Steel Tube & Shapes, Inc.,* 616 F.2d 440, 443 (9th Cir.1980). Any findings of fact underlying a determination as to likelihood of confusion are subject to the clearly erroneous test, but determination of whether, based on those facts, a likelihood of confusion exists is a legal conclusion. *Alpha Industries,* 616 F.2d at 443-44; *J.B. Williams Co., Inc. v. Le Conte Cosmetics, Inc.,* 523 F.2d 187, 190 (9th Cir.1975), *cert. denied,* 424 U.S. 913, 96 S.Ct. 1110, 47 L.Ed.2d 317 (1976).

Plaintiffs attempted to prove unfair competition by showing that the title "Kismet" had acquired secondary

meaning referring to their play. The only evidence offered by plaintiffs on this issue was the testimony of plaintiff Edwin Lester who claimed that the original 1911 *Kismet* was a "dead issue." Defendants introduced evidence that the 1911 *Kismet* and a silent movie produced from that play in 1912 had been very popular and widely acclaimed. The trial court's finding that the title "Kismet" had not acquired secondary meaning referring to plaintiff's play, is not clearly erroneous. Moreover, since Act IV "Kismet" was only an 11-minute segment of a 100-minute revue, we agree that audiences were not likely to confuse the two versions.

2. Breach of Contract

Finally, plaintiffs urge that the district court denied them due process in dismissing their breach of contract claim against MGM, Inc. The court indicated at the outset of trial that it would not exercise pendent jurisdiction and would not receive evidence on the contract claim or the unfair competition claim. But at the end of the trial, the court permitted post-trial briefs, specifying that they should include issues relating to plaintiffs' pendent claims. The court stated it would take additional evidence on those claims if necessary. Since plaintiffs apparently did not offer any additional evidence, the district court did not err in dismissing the contract claim based on the evidence before it. Accordingly, plaintiffs' due process challenge has no merit.

III. CONCLUSION

We affirm the district court's finding that defendants' use of plaintiffs' *Kismet* exceeded the scope of the ASCAP license. We also affirm the district court's finding that plaintiffs failed to prove actual damages. We vacate the award of defendants' profits derived from the infringe-

ment and remand to the district court for further proceedings consistent with this opinion.

AFFIRMED in part, REVERSED in part, and REMANDED with directions.

REINHARDT, Circuit Judge, concurring:

I concur fully in the majority opinion, except for Section B.1. I would hold that the district court clearly erred in finding that appellants "failed to establish *any* damage attributable to the infringement." It seems evident to me that the inclusion of "Kismet" as a part of 1,700 performances of Hallelujah Hollywood served to reduce the market value of appellant's property in the Las Vegas area. The testimony in the record amply supports this proposition. There is no evidence that would support the opposite conclusion. Under these circumstances, I believe the district court clearly erred in disregarding the testimony offered by appellants.

APPENDIX C

No. 86-5692
No. 86-7550

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FRANK MUSIC CORPORATION, ROBERT WRIGHT, GEORGE FORREST, ANNE LEDERER (as Executrix of the Last Will of Charles Lederer), LUTHER DAVIS, and EDWIN LESTER,
Plaintiffs-Appellants/Cross-Appellees,

v.

METRO-GOLDWIN-MAYER, INC., a Delaware corporation, MGM GRAND HOTEL, INC., a NEVADA CORPORATION, and DONN ARDEN,
Defendants-Appellees/Cross-Appellants.

D.C. No. CV-76-1105 RJK

Previous Related Appeals
Nos. 83-6426 and 83-6460

ORDER CLARIFYING OPINION, DENYING WRIT OF MANDAMUS and DISMISSING APPEAL

Before: FLETCHER, BOOCHEVER and REINHARDT, Circuit Judges

This case comes back to this court in three ways. Appellants seek relief alternatively by mandamus, direct appeal, or through clarification of our opinion, *Frank*

Music Corporation, et al. v. Metro-Goldwyn-Mayer, Inc., et al., 722 F.2d 505 (9th Cir.1985).

Mandamus is appropriate in extraordinary circumstances, for example, where the district court clearly acts outside its jurisdiction, or, on remand, clearly violates the mandate. This is not such a case. This court accepts a measure of blame in not being more specific in its directions to the district court. Accordingly, we decline to grant appellants' petition for writ of mandamus.

Nor do we find direct appeal of the district court's January 30, 1986 order appropriate. This court has jurisdiction to review on appeal only final orders. 28 U.S.C. § 1291. The court's order is not final nor does it fall into "that small class" of collateral orders appealable under *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949).

We do, however, find it appropriate to clarify our opinion by more specific direction to the district court for the conduct of the remand since it is apparent from a reading of the district court's order of January 30, 1986 that there has been some misunderstanding as to the intent of our opinion.

In our opinion at 519 we stated:

> On remand, the district court should reconsider its apportionment of profits, and should fully explain on the record its reasons and the resulting method of apportionment it uses. Apportionment of indirect profits may be a part of the calculus. If the court finds that a reasonable, non-speculative formula cannot be derived, or that the amount of profits a reasonable formula yields is insufficient to serve the purposes underlying the statute, then the court

should award statutory damages. *See infra* Part II.B.5.

We intended that the district court reconsider its apportionment of profits based *on the record already made at trial* but in light of the specific holdings contained in the opinion. We held:

(1) That the district court's award of $22,000 to the plaintiffs as a share of the infringer's profits was "grossly inadequate." *Id.* at 518.

(2) That the district court was clearly erroneous to the extent it concluded that defendants had sustained their burden to show that claimed overhead expenses actually contributed to the production of *Hallelujah Hollywood* and could be deducted from the gross profits of the production. *Id.* at 516.

(3) That *Hallelujah Hollywood* had promotional purposes "to draw people to the hotel and the gaming tables" and accordingly its "indirect profits from the hotel and gaming operations, as well as direct profits from the show itself, are recoverable if ascertainable." *Id.* at 517.

The district court's order stated that additional evidence would be taken on two issues:

(1) whether defendants' claimed overhead expenses actually contributed to the infringing production,

(2) whether and to what extent indirect profits are sufficiently connected with the production to justify an award based on such profits.

Our holdings preclude further evidence on those issues. No overhead should be deducted from direct profits from *Hallelujah Hollywood* since defendants did not sustain their burden of proof. As to indirect profits, we held that the connection between indirect profits (such as profits

from the hotel and gaming tables) had been established. The task of the district court is to reconsider its apportionment of profits and to explain fully its reasons and method. *Id.* at 519. However, the district court should keep in mind that we recognized that athe court simply might not be able to derive a "reasonable, non-speculative formula" to apportion profits. *Id.* Our recognition was based on the uncertainties inherent in such allocations and the possible inadequacies of the trial record. We also recognized that a formula that was reasonable and non-speculative might not yield an adequate damage award to serve the purposes underlying the statute. If either should be the case, we stated "the court should award statutory damages." We directed the court's attention to the opinion's discussion of statutory in lieu of damages.

In the event an adequate award derived from allocation of profits is not possible, the district court can exercise its discretion to make a statutory award provided it is greater than an award of profits or actual damages would yield and that it takes into account fully the purposes of the statute and gives consideration to the fact that allocated profits would have included a share of both direct profits (without deduction of overhead) and net indirect profits.

APPENDIX D

No. CV 76-1105-RJK

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

FRANK MUSIC CORP., ROBERT WRIGHT, GEORGE FORREST, ANNE LEDERER (as Executrix of the Last Will of Charles Lederer), LUTHER DAVIS, and EDWIN LESTER,
Plaintiffs,

v.

METRO-GOLDWYN-MAYER INC., a Delaware corporation, MGM GRAND HOTEL, INC., a Nevada corporation, and DONN ARDEN,
Defendants.

MEMORANDUM OF DECISION AND ORDER

BACKGROUND

The facts of this case are fully set forth in this Court's Memorandum of Decision and Order filed October 21, 1983, and will not be repeated in full here. Briefly, plaintiffs brought this action seeking damages for copyright infringement, unfair competition, breach of contract and breach of an implied covenant of good faith and fair dealing. Plaintiffs are the copyright owners and authors of KISMET, a dramatico-musical production based on Edward Knoblock's dramatic play of the same name. The

dispute arises out of some 1700 performances of "Hallelujah Hollywood," a ten act stage revue produced by defendant Donn Arden and presented at defendant MGM Grand Hotel ("MGM Grand") in Las Vegas.

After a four day bench trial, the Court found for defendants on the unfair competition claim, dismissed the pendent claims and awarded plaintiffs $22,000 in damages on the copyright infringement claim. Both plaintiffs and defendants appealed, and the Ninth Circuit affirmed in part, reversed in part and remanded with directions. *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505 (9th Cir.1985).

This Court interpreted the Ninth Circuit opinion as authorizing the taking of additional evidence on certain of the issues to be determined on remand and issued an order to that effect on January 30, 1986. Plaintiffs took the position that the Court was to determine the issues on remand solely on the basis of evidence already on the record. Plaintiffs thus applied to the Ninth Circuit alternatively for a writ of mandamus, for direct appeal of the January 30, 1986 Order, or for clarification of the earlier Ninth Circuit opinion.

On January 13, 1987, the Ninth Circuit issued an order clarifying its opinion in *Frank Music*, denying the writ of mandamus and dismissing the appeal. In its clarification, the Ninth Circuit states that its earlier holdings "preclude further evidence on those issues."

Accordingly, the following issues must be determined on remand:

(1) What method should be used to apportion the infringer's profits;

(2) Whether "indirect profits" earned from other MGM Grand operations are sufficiently ascertainable so as to justify their inclusion in a damage award;

(3) Whether an award of damages based on profits to the infringer is inadequate to serve the purposes of the 1909 Copyright Act, 17 U.S.C. § 101 *et seq.* (1970), thus making an award of statutory "in lieu" damages just;

(4) The degree of connection between (a) Donn Arden and MGM Grand, and (b) MGM Grand and MGM, Inc., to determine whether joint and several liability is proper; and

(5) Whether to award attorney's fees to plaintiffs.

ANALYSIS

I.

APPORTIONMENT OF PROFITS

The Ninth Circuit upheld this Court's finding that plaintiffs' theory of actual damages was uncertain and speculative. *Frank Music,* 772 F.2d at 514. As an alternative to actual damages, this Court awarded plaintiffs $22,000 as a portion of the infringers profits. However, the appellate court reversed the award on the grounds that: (1) it was error to deduct overhead expenses from profits because defendants failed to establish that the claimed overhead actually contributed to sales of the infringed work; (2) no reasoned explanation was provided for the formula used to apportion direct profits; and (3) the Court failed to include indirect profits from the hotel and gaming operations, if ascertainable, in the award of profits.

A. Net Direct Profit

The parties stipulated that MGM Grand earned gross revenues of $24,191,690 from "Hallelujah Hollywood" during the period in question. This Court found that MGM Grand incurred direct costs of $18,060,084 in producing the show. Accordingly, net profits from the show equal $6,131,606.

B. Apportionment of Direct Profits

The Ninth Circuit has ordered this Court to reconsider its apportionment of profits and provide a reasoned explanation of and formula for the apportionment.

The Court has carefully reconsidered the evidence before it. Act IV of "Hallelujah Hollywood" was one of ten acts, approximately a ten minute segment of a 100 minute revue. On this basis, the Court concludes that ten percent of the profits of "Hallelujah Hollywood" are attributable to Act IV.

The question of apportionment does not end here, however. The infringing musical material was only one of several elements contributing to the segment. A portion of the profits attributable to Act IV must be allocated to other elements, including the creative talent of the producer and director, the talents of performers, composers, choreographers, costume designers and others who participated in creating Act IV, and the attraction of the unique Ziegfeld Theatre with its elaborate stage effects. To allow plaintiffs to recover all of the net profits atttibutable to Act IV when much of Act IV embodied original material would impose a penalty rather than just compensation for the infringement. Such a penalty is not contemplated by the copyright statute. *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d 354 (9th Cir.1947); *Twentieth Century Fox Film Corp. v. Stonesifer*, 140 F.2d 579, 584

(9th Cir.1944). While no precise mathematical formula can be applied, the Court concludes that in light of the evidence, a fair approximation of the value of the infringing work to Act IV is twenty-five percent.

In summary, ten percent of the profits of "Hallelujah Hollywood" are attributable to Act IV and twenty-five percent of the profits of Act IV are attributable to the use of the infringing work. Thus, plaintiffs are entitled to recover two and one-half (2.5) percent of the profits, or $153,290.

C. Apportionment of Indirect Profits

In *Frank Music*, the Ninth Circuit held for the first time that a copyright proprietor may recover indirect profits under the 1909 Act. 772 F.2d at 517. This Court wishes to note that plaintiff's sole evidence at trial on this point consisted of one witness whose testimony the Court rejected as so biased and prejudiced as to be wholly without credibility. Plaintiffs appeared to have recognized the total failure of their evidence, for in their post-trial brief they completely abandoned the theory that they were entitled to recover indirect profits. Nevertheless, the Ninth Circuit concluded that plaintiffs established at trial that "Hallelujah Hollywood" had promotional value and helped draw people to the MGM Grand Hotel and the gaming tables and order this Court to award indirect profits from the hotel and gaming operations. *Id.*

Evidence at trial indicated that MGM Grand's total net profit during the relevant time period approximated $395,000,000. Subtracting from this the $6,131,606 direct profits from "Hallelujah Hollywood" itself, MGM Grand's indirect profits total $380,868,394.

The Court has carefully considered the factors bearing on the relative promotional value of "Hallelujah

Hollywood" and its contribution to MGM Grand's other operations. Among the factors contributing to hotel profits during the period in question were the quality of the guest accommodations, restaurants and cocktail lounges, the star entertainment at the Celebrity room — including the likes of Dean Martin, Mac Davis and Shirley MacLaine — the movie theatre where MGM film classics screened nightly, Jai Alai, the casino, convention and banquet facilities, and athletic facilities, including tennis courts, swimming pools, gym and sauna. General advertising and promotional activities also played a role in bringing people to the hotel and casino.

The Court concludes that five percent of total profits can reasonably be allocated to the hotel's entertainment. Of that figure, two percent is attributable to the "Hallelujah Hollywood" production. The infringing material represents approximately two and one-half (2.5) percent of the "Hallelujah Hollywood" production. Accordingly, plaintiffs are entitled to recover five hundredths of one percent (.05%) of MGM Grand's indirect profits, or $190,434.

Thus, plaintiffs are to be awarded profits totalling $343,724.

II.

STATUTORY "IN LIEU" DAMAGES

Because the Court holds that plaintiffs are entitled to recover $343,724 in profits attributable to the infringement, an award of statutory damages under 17 U.S.C. § 101(b) (1970) is discretionary. *Frank Music*, 772 F.2d at 520.

The Ninth Circuit directed this Court to consider whether the amount of profits awarded accomplishes the

purposes of the statute. *Id.* The remedy provisions of the 1909 Copyright Act were intended to provide adequate compensation to the copyright holder and to discourage wrongful conduct and deter infringements. *Id.*

The Court finds that the award of profits attributable to the infringement adequately compensates plaintiffs for their injury. The award is also adequate to discourage wrongful conduct. The Ninth Circuit expressly affirmed this Court's findings that the infringement was neither willful, conscious nor deliberate. MGM Grand believed in good faith that the ASCAP license it paid for authorized the conduct at issue. Moreover, the award of profits on remand exceeds the original award of $22,000 by more than fifteen times. Although the appellate panel opined that $22,000 "seems to be grossly inadequate," it provided little guidance as to how to determine the correct figure. The Court trusts that a fifteen-fold increase based on a reasoned apportionment of profits renders the award adequate.

Accordingly, the Court declines to exercise its discretion to award statutory damages.

III.

LIABILITY OF THE INDIVIDUAL DEFENDANTS

In the October 21, 1983 Memorandum of Decision and Order, the Court erroneously referred throughout the opinion to the liability of "the defendants" in the plural. As the Ninth Circuit noted, defendants in a copyright infringement action cannot be held jointly and severally liable for profits attributable to the infringemet.

The evidence supports a finding of liability only as against defendant MGM Grand Hotel, Inc.

Defendant Donn Arden was an employee of defendant MGM Grand, and his entire involvement with "Hallelujah Hollywood" fell within the course and scope of his employment. MGM Grand had final approval rights over all elements of the production and owned all intellectual property created for the show. Arden had no authority to incur costs or to contract for or on behalf of MGM Grand. Accordingly, the Court finds that Donn Arden incurred no individual liability for the infringement.

Nor can MGM, Inc. be held liable for the infringing acts of its subsidiary, MGM Grand. As the Ninth Circuit noted, "[a] parent corporation cannot be held liable for the infringing actions of its subsidiary unless there is a substantial and continuing connection between the two with respect to the infringing acts." *Id.* at 519-20.

The only evidence that MGM, Inc. had any involvement in "Hallelujah Hollywood" consisted of testimony that MGM Grand used MGM, Inc. studio facilities to do planning work before the hotel opened. However, it is uncontraverted that MGM Grand paid rent for the facilities. Indeed, it is undisputed that MGM Grand bore all the costs associated with the production at every stage. Plaintiffs have failed to establish any basis on which to hold MGM, Inc. liable for the infringing acts of its subsidiary.

Accordingly, the Court finds liability only against MGM Grand Hotel, Inc.

IV.

ATTORNEYS' FEES

On remand, the Court ordered the parties to brief the issue of whether plaintiffs should be awarded reasonable attorneys' fees. The 1909 Copyright Act gives the Court

discretion to award reasonable attorneys' fees to the prevailing party in an infringement action. 17 U.S.C. § 116 (1970).

A. Propriety of an Award of Attorneys' Fees

Plaintiffs ask for an award of $1,300,000, claiming its attorney expended 5200 hours on the case at an hourly rate of $250. Defendants urge the Court not to award attorneys' fees on the grounds that the infringement was not willful and defendants litigated a substantial defense in good faith.

The Ninth Circuit has held that an award of attorneys' fees in a copyright infringement action must be predicated on a finding of bad faith or frivolity. *Cooling Systems & Flexibles, Inc. v. Stuart Radiator, Inc.*, 777 F.2d 485, 493 (9th Cir.1985). Defendants point out that both this Court and the Ninth Circuit expressly held that the infringement was not willful, and that defendants could reasonably have believed that the ASCAP license gave them the right to use plaintiffs' work as they did. Moreover, in addition to raising substantial issues on the merits, the question of damages was far from clear and defendants made meritorious arguments on the issues. *See Morser v. Bengor Products Co.*, 283 F. Supp. 926 (S.D.N.Y. 1968) (where infringement was clear, but damages were not, defendant was entitled to litigate damages and plaintiff's application for attorneys' fees was denied). Thus, defendants contend that an award of attorneys' fees is precluded because defendants litigated a substantial defense in good faith.

However, plaintiffs argue that the Ninth Circuit rule requiring a finding of good faith or frivolity applies only to an award of attorneys' fees to a prevailing *defendant*. Plaintiffs cite several cases in which attorneys' fee awards

to prevailing *plaintiffs* have affirmed in the absence of bad faith or a meritless defense. *See, e.g., Harris v. Emus Records Corp.*, 734 F.2d 1329, 1335 (9th Cir.1984); *Russell v. Price*, 612 F.2d 1123, 1132 (9th Cir.1979), *cert. denied*, 446 U.S. 952 (1980). Plaintiffs also rely on a line of cases in the Second Circuit holding that while fees should generally be awarded to prevailing plaintiffs, prevailing defendants must show bad faith and frivolity to win attorneys' fees. *See, e.g., Diamond v. Am-Law Publishing Corp.*, 745 F.2d 142, 148 (2d Cir.1984); *Grossett & Dunlap, Inc. v. Gulf & Western Corp.*, 534 F. Supp. 606, 609-610 (S.D.N.Y. 1982).

It is clear that the Ninth Circuit has never expressly articulated such a distinction. However, a review of the cases reveals that in practice, prevailing plaintiffs are routinely awarded attorneys' fees while prevailing defendants are not. Awards of attorneys' fees to plaintiffs serve the purposes of the Copyright Act of encouraging private enforcement and deterring infringements.

Plaintifffs in the instant case prevailed on their copyright claim. Accordingly, they are entitled to an award of attorneys' fees.

B. Amount of Reasonable Fees

Although plaintiffs were ordered to submit full documentation with their request for an award of attorneys' fees, the material submitted has made it nearly impossible for this Court to ascertain the number of hours spent on this case. Plaintiffs' counsel failed to provide his contemporaneous time records. Rather, he "reconstructs" his time spent from 1975 through mid-May 1980. These hours total 1707.5. Then counsel "estimates" that he expended 3500 hours on the case from mid-May 1980 to the present. He justifies his failure to provide documentation for a full

seven years of effort with the statement that he "got out of the habit of keeping time on the case."

The Court has observed several times that this case is one of substantial simplicity. It was apparent throughout the trial that much of the time expended by plaintiffs' counsel was unwarranted. Indeed, it appeared to the Court that if one hour of attorney time was necessary, plaintiffs' counsel invariably put in 300 hours.

There were few, if any, factual disputes as to liability. Although the damages issued were more complex, it should be noted that plaintiffs failed to even raise the issue of indirect profits in their post-trial brief. Moreover, plaintiffs prevailed on only one of their three claims. The Court found for defendants on the unfair competition and breach of contract claims. Finally, both sides engendered numerous delays and petty discovery disputes, resulting in the inordinate length of time necessary to resolve this case. In view of all of these factors, the Court concludes that $115,000 represents a reasonable attorneys' fee for plaintiffs' counsel.

CONCLUSION

IT IS HEREBY ORDERED THAT judgment shall be entered in favor of plaintiffs and against defendant MGM Grand Hotel, Inc. in the amount of $343,724. MGM Grand Hotel, Inc. is further ordered to pay to plaintiffs $115,000 as plaintiffs' reasonable attorneys' fees.

IT IS FURTHER ORDERED THAT this action is hereby dismissed with prejudice against defendants Metro-Goldwyn-Mayer, Inc. and Donn Arden.

Plaintiffs shall recover their costs of suit.

The Clerk shall send, by United States mail, a copy of this Memorandum of Decision and Order to counsel for the parties.

DATED: July 21, 1987.

ROBERT J. KELLEHER

ROBERT J. KELLEHER
Senior Judge

APPENDIX E

FRANK MUSIC CORP.; ROBERT WRIGHT; GEORGE FORREST; ANNE LEDERER as Executrix of the Last Will of Charles Lederer; LUTHER DAVIS; EDWIN LESTER, *Plaintiffs-Appellants-Cross-Appellees,*

v.

METRO-GOLDWYN-MAYER INC., et al., *Defendants-Appellees-Cross-Appellants.*

Nos. 87-6257, 87-6321.

United States Court of Appeals, Ninth Circuit.

Argued and Submitted May 4, 1989.
Decided Sept. 27, 1989.

Before FLETCHER, BOOCHEVER and REINHARDT, Circuit Judges.

FLETCHER, Circuit Judge:

In *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505 (9th Cir.1985) (*Frank Music I*), we affirmed the district court's holding that defendants infringed plaintiffs' copyright in the dramatico-musical play *Kismet*, but remanded for reconsideration of the amount of profits attributable to the infringement and for consideration of whether defendants Donn Arden and Metro-Goldwyn-Mayer, Inc. (MGM, Inc.) should be liable in addition to MGM Grand Hotel, Inc. (MGM Grand). On remand, the district court awarded plaintiffs $343,724 against MGM Grand, dismissed the action against MGM, Inc. and Arden, and awarded plaintiffs $115,000 in attorney's fees. Plaintiffs appeal and defendants cross-appeal. We affirm in part, reverse in part, and remand.

I.

FACTS

The facts are fully set out in *Frank Music I*, 772 F.2d at 509-11. We reiterate only selectively. Plaintiffs are the copyright owners and authors of *Kismet*, a dramatico-musical work. MGM, Inc. under license produced a musical motion picture version of *Kismet*. Beginning April 26, 1974, MGM Grand presented a musical revue entitled *Hallelujah Hollywood* in the hotel's Ziegfeld Theatre. *Hallelujah Hollywood* was largely created by an emplyee of MGM Grand, Donn Arden,[1] who also staged, produced and directed the show. The show comprised ten acts, four billed as "tributes" to MGM motion pictures. Act IV was entitled "Kismet", and was a tribute to the MGM movie of that name. It was based almost entirely on music from *Kismet*, and used characters and settings from that musical. Act IV "Kismet" was performed approximately 1700 times, until July 16, 1976, when, under pressure resulting from this litigation, MGM Grand substituted a new Act IV.

Plaintiffs filed suit, alleging copyright infringement, unfair competition, and breach of contract. In *Frank Music I*, we affirmed the district court's conclusion that the use of *Kismet* in *Hallelujah Hollywood* was beyond the scope of MGM Grand's ASCAP license and infringed plaintiffs' copyright. In this appeal, the parties focus on the adequacy of damages and attorney's fees.

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[1]The basis for finding Donn Arden to be an employee of MGM Grand is discussed *infra*.

II.

DISCUSSION

A. Apportionment of Profits

1. Direct Profits

In *Frank Music I*, 772 F.2d at 514, we upheld the district court's conclusion that the plaintiffs failed to prove actual damages arising from the infringement, but vacated the district court's award of $22,000 in apportionment profits as "grossly inadequate," *id.* at 518, and remanded to the district court for reconsideration.

On remand, the district court calculated MGM Grand's net profit from *Hallelujah Hollywood* at $6,131,606, by deducting from its gross revenues the direct costs MGM Grand proved it had incurred. Neither party challenges this calculation.

In apportioning the profits betwen Act IV and the other acts in the show, the district court made the following finding:

> Act IV of "Hallelujah Hollywood" was one of ten acts, approximately a ten minute segment of a 100 minute revue. On this basis, the Court concludes that ten percent of the profits of "Hallelujah Hollywood" are attributable to Act IV.

Memorandum of Decision and Order (Decision II) at 4.

Plaintiffs assert that this finding is in error in several respects. First, they point out that on Saturdays *Hallelujah Hollywood* contained only eight acts, not ten, and that on Saturdays the show ran only 75 minutes, not 100. *Frank Music I*, 772 F.2d at 510. Second, Act IV was approximately eleven and a half minutes long, not ten. *Id.* Because the show was performed three times on Satur-

days, and twice a night on the other evenings of the week, *id.*, the district court substantially underestimated the running time of Act IV in relation to the rest of the show.[2]

If the district court relied exclusively on a quantitative comparison and failed to consider the relative quality or drawing power of the show's various component parts, it erred. *See ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 508 F.Supp. 798, 800 (S.D.N.Y.1981), *modified on other grounds*, 722 F.2d 988 (2d Cir.1983); *Lottie Joplin Thomas Trust v. Crown Publishers*, 456 F.Supp. 531, 538 (S.D.N.Y.1977), *aff'd*, 592 F.2d 651 (2d Cir.1978). However, the district court's apportionment based on comparative durations would be appropriate if the district court implicitly concluded that all the acts of the show were of roughly equal value. *Cf. Frank Music I*, 772 F.2d at 518 ("Each element contributed significantly to the show's success, but no one element was the sole or overriding reason for that success.") While a more precise statement of the district court's reasons would have been desirable, we find support in the record for the conclusion that all the acts in the show were of substantially equal value.

The district court went on to apportion the parties' relative contributions to Act IV itself:

> The infringing musical material was only one of several elements contributing to the segment. A portion of the profits attributable to Act IV must be

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[2]There were twelve shows weekly which ran for 100 minutes, plus three on Saturdays which ran 75, totalling 1425 minutes per week. Act IV remained constant throughout the week, for a total of approximately 173 minutes. Accordingly, Act IV comprised 12% of the total weekly running time of *Hallelujah Hollywood*. Because the district court's findings differ from those previously found and affirmed in *Frank Music I*, we substitute 12% as the appropriate figure on which we base our subsequent calculations.

> allocated to other elements, including the creative talent of the producer and director, the talents of performers, composers, choreographers, costume designers and others who participated in creating Act IV, and the attraction of the unique Ziegfeld Theatre with its elaborate stage effects. . . . While no precise mathematical formula can be applied, the Court concludes that . . . a fair approximation of the value of the infringing work to Act IV is twenty-five percent.

Decision II at 4-5.

The district court was correct in probing into the parties' relative contributions to Act IV. Where a defendant alters infringing material to suit its own unique purposes, those alterations and the creativity behind them should be taken into account in apportioning the profits of the infringing work. *Cf. Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 49-51 (2d Cir.1939), *aff'd*, 309 U.S. 390, 60 S.Ct. 681, 84 L.Ed. 825 (1940); *see also Comment: An Improved Framework for Music Plagiarism Litigation*, 76 Calif.L.Rev. 421, 454-55 (1988). However, the district court appeats to have ignored its finding in its previous decision that defendants used not only the plaintiffs' music, but also their lyrics, characters, settings, and costume designs, recreating to a substantial extent the look and sound of the licensed movie version of *Kismet*. *Memorandum of Decision and Order (Decision I)* at 10-11.

While it was not inappropriate to consider the creativity of producers, performers and other involved in staging and adapting excerpts from *Kismet* for use in *Hallelujah Hollywood*, the district court erred in weighing these contributions so heavily. In performing the apportionment, the benefit of the doubt must always be given to the plaintiff, not the defendant. *Sheldon*, 106 F.2d at 51. And while the apportionment may take into account the role of

uncopyrightable elements of a work in generating that work's profits, *see Sheldon*, 106 F.2d at 50-51 (considering role of movies' actors, scenery, producers and directors); *cf. McCulloch v. Albert E. Price, Inc.*, 823 F.2d 316, 320 (9th Cir.1987) (substantial similarity analysis can include examination of uncopyrightable elements), the apportionment should not place too high a value on the defendants' staging of the work, at the expense of undervaluing the plaintiffs' more substantive creative contributions. *See Comment: An Improved Framework, supra*, at 454-56. Production contributions involving expensive costumes and lavish sets will largely be taken into account when deducting the defendants' costs. Indeed, defendants concede that had they produced *Kismet in toto*, it would have been proper for the district court to award 100% of their profits, despite their own creative efforts in staging such a production.

The district court found that defendants' staging of the *Kismet* excerpts was highly significant to Act IV's success. While we believe that a defendant's efforts in staging an infringing production will generally not support more than a *de minimis* deduction from the plaintiffs' share of the profits, we cannot say the district court's conclusion that the defendants' contributions were substantial in this case is clearly erroneous. We recognize that there will be shows in which the attraction of the costumes, scenery or performers outweighs the attraction of the music or dialogue. On the other hand, a producer's ability to stage a lavish presentation, or a performer's ability to fill a hall from the drawing power of her name alone, is not a license to use freely the copyrighted works of others.

We conclude that apportioning 75% of Act IV to the defendants grossly undervalues the importance of the

plaintiffs' contributions. Act IV was essentially *Kismet*, with contributions by the defendants; it was not essentially a new work incidentally plagiarizing elements of *Kismet*. A fairer apportionment, giving due regard to the district court's findings, attributes 75% of Act IV to elements taken from the plaintiffs and 25% to the defendants' contributions.[3]

2. Indirect Profits

In *Frank Music I*, we held that the plaintiffs were entitled to recover, in addition to direct profits, a proportion of ascertainable indirect profits from defendants' hotel and gaming operations attributable to the promotional value of *Hallelujah Hollywood*. The district court considered the relative contributions of *Hallelujah Hollywood* and other factors contributing to the hotel's profits, including the hotel's guest accommodations, restaurants, cocktail lounges, star entertainment in the "Celebrity" room, the movie theater, Jai Alai, the casino itself, convention and banquet facilities, tennis courts, swimming pools, gym and sauna, and also the role of advertising and general promotional activities in bringing customers to the hotel. The district court concluded that two percent of MGM Grand's indirect profit was attributable to *Hallelujah Hollywood*. In light of the general promotion and the wide variety of attractions available at MGM Grand, this conclusion is not clearly erroneous.[4]

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[3] Based on this allocation, plaintiffs are entitled to $551,844.54 as direct profits from the infringement.

[4] We do, however, need to correct an error in calculation or typography noted by the plaintiffs. In subtracting MGM Grand's direct profits of $6,131,606 from its total net profit of approximately $395,000,000, the district court arrived at the figure of $380,868,394. The correct figure is $388,868,394. Plaintiffs are entitled to 9% (75% of 12%) of 2% of this figure, or $699,963.10.

B. Prejudgment Interest

The district court, without comment, declined to award prejudgment interest. The availability of prejudgment interest under the Copyright Act of 1909 is an issue of first impression in this circuit.

The 1909 Act does not mention prejudgment interest. Nevertheless, courts may allow prejudgment interest even though the governing statute is silent. *Rodgers v. United States*, 332 U.S. 371, 373, 68 S.Ct. 5, 7, 92 L.Ed. 3 (1947). "[A] persuasive consideration . . . is the relative equities between the beneficiaries of the obligation and those upon whom it has been imposed." *Id.* The goal of compensating the injured party fairly for the loss caused by the defendant's breach of the statutory obligation should be kept in mind. *Id.; see also Loeffler v. Frank*, 486 U.S. 549, 108 S.Ct. 1965, 1970-71, 100 L.Ed.2d 549 (1988). Prejudgment interest compensates the injured party for the loss of the use of money he would otherwise have had. *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655-56, 103 S.Ct. 2058, 2062-63, 76 L.Ed.2d 211 (1983); *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1299-1300 (9th Cir.1984).

Defendants argue that Congress did not intend for prejudgment interest to be available under the 1909 Act. They ask us to infer this from the inclusion of prejudgment interest in the Patent Act, 35 U.S.C. § 284 (1982),[5]

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[5] 35 U.S.C. § 284 provides:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

This section has been interpreted to require that prejudgment interest "ordinarily be awarded where necessary to afford the plaintiff full compensation for the infringement." *General Motors*, 461 U.S. at 654, 103 S.Ct. at 2062.

and the omission of reference to prejudgment interest in either the 1909 Act or the Copyright Act of 1976. Because the Patent and Copyright Acts are similar statutes with similar purposes, defendants argue that differences between the two Acts with respect to prejudgment interest are intentional. *Cf. Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 435, 439, 104 S.Ct. 774, 787, 78 L.Ed.2d 574 (1984) (patent law appropriate source of guidance for novel copyright issues, but noting that doctrine of contributory infringement applies in copyright cases, where the statute is silent, as well as in patent cases, where the statute specifically refers to contributory infringers); *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1333 (9th Cir.1984).

Examination of the history of prejudgment interest in the patent context suggests this argument is flawed. Before Congress enacted 35 U.S.C. § 284, prejudgment interest was generally available in patent infringement cases from the date damages were liquidated, and in exceptional cases from the date of infringement. *See, e.g., Duplate Corp. v. Triplex Safety Glass Co.*, 298 U.S. 448, 459, 56 S.Ct. 792, 797, 80 L.Ed. 1274 (1936); *Tilghman v. Proctor*, 125 U.S. 136, 160, 8 S.Ct. 894, 906, 31 L.Ed. 664 (1888). Such a remedy was available despite the fact that the patent laws then in effect made no mention of prejudgment interest.[6] Indeed, the wording of the relevant

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[6]Rev.Stat. § 4921, as amended, 42 Stat. 392, 35 U.S.C. § 70, provided in pertinent part:

> [T]he complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby.

40 Stat. 704-05, 28 U.S.C. § 1498 (1982), provides for a remedy in cases of patent or copyright infringement by the United States. Section 1498 allows the prevailing plaintiff "recovery of his reasonable and entire compensation," which the Supreme Court construed in *Waite v. United States*, 282 U.S. 508, 509, 51, S.Ct. 227, 75 L.Ed. 494

patent statute was similar to that of § 101(b) of the 1909 Copyright Act.[7]

Thus, interpreting the 1909 Act in light of patent law doctrine existing at the time of its enactment and during much of its effective period, we cannot conclude that Congress intended from its silence that prejudgment interest would not be available under the 1909 Act.[8] Just

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(1931), to include prejudgment interest on the profits the plaintiff would have made but for the infringement.

[7]17 U.S.C. § 101(b) provides, in pertinent part:

> [The copyright proprietor shall be entitled to recover] such damages as the copyright proprietor may have suffered due to the infringement, as well as all the profits which the infringement shall have made from such infringement . . .

[8]Nor do we suggest that Congress's continuing silence on this issue in the 1976 Act necessarily should be interpreted as an express disavowal of prejudgment interest. "Ordinarily, 'Congress' silence is just that — silence.' " *Community for Creative Non-Violence v. Reid*, — U.S. —, 109 S.Ct. 2166, 2177, 104 L.Ed.2d 811 (1989), quoting *Alaska Airlines, Inc. v. Brock*, 480 U.S. 678, 686, 107 S.Ct. 1476, 1481, 94 L.Ed.2d 661 (1987).

Only one circuit has considered the availability of prejudgment interest in a copyright infringement action, and that case construed the 1976 Act, not the 1909 Act. In *Robert R. Jones Assocs. v. Nino Homes*, 858 F.2d 274, 282 (6th Cir.1988), the Sixth Circuit vacated the district court's decision to award prejudgment interest under the 1976 Act. Finding that the district court's purpose in granting prejudgment interest was "to provide an effective sanction against copyright infringement," *id.*, the court held that such a remedy was unnecessary to deter infringements in light of the availability under the 1976 Act of an award of profits and damages, as well as costs and attorneys' fees. *Id.; see* 17 U.S.C. §§ 504(b), 505 (1982).

The Sixth Circuit's decision is of limited utility in determining whether prejudgment interest should be allowed under the 1909 Act. Deterrence of infringement is not the only purpose of the copyright law: Congress also intended the damages provisions of the 1909 Act to provide adequate compensation to the copyright holder. *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 232-33, 73 S.Ct. 222, 225, 97 L.Ed. 276 (1952).

as courts awarded prejudgment interest in order to provide adequate compensation to patent holders before the enactment of 35 U.S.C. § 284, this same remedy should be available to copyright owners for the same purpose. *See also Fishman v. Estate of Wirtz,* 807 F.2d 520, 584 (7th Cir.1986) ("The denial of prejudgment interest systematically undercompensates victims and underdeters putative offenders.") (Easterbrook, dissenting).

We therefore hold that prejudgment interest is an available remedy under the 1909 Act. Whether the circumstances of this case warrant the remedy is a separate question. The common-law rule during much of the effective period of the 1909 Act awarded prejudgment interest only on damages that were liquidated or readily ascertainable by mathematical computation and did not rely on opinion or discretion. *See, e.g., General Motors,* 461 U.S. at 651-52 & n. 5, 103 S.Ct. at 2060-61 & n. 2 (discussing history of common law rule). But even where damages were not liquidated or readily ascertainable, courts had the power to award prejudgment interest on unliquidated damages when necessary to compensate the plaintiff fairly. *Miller v. Robertson,* 266 U.S. 243, 258, 45 S.Ct. 73, 79, 69 L.Ed. 265 (1924).

Because the 1909 Act allows plaintiffs to recover only the greater of the defendant's profits *or* the plaintiff's actual damages, *see Frank Music I,* 772 F.2d at 512; *Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp.,* 562 F.2d 1157, 1176 (9th Cir.1977), an award of profits or damages under the 1909 Act will not necessa-

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The Second Circuit has affirmed an award under the 1909 Act which included prejudgment interest without discussing the issue. *Lottie Joplin Thomas Trust v. Crown Publishers,* 592 F.2d 651, 656 (2d Cir.1978). It does not appear that the propriety of that award was argued to the appellate court.

rily be adequate to compensate a prevailing copyright owner.[9] Accordingly, we conclude prejudgment interest ordinarily should be awarded.

Awarding prejudgment interest on the apportioned share of defendant's profits is consistent with the purposes underlying the profits remedy. Profits are awarded to the plaintiff not only to compensate for the plaintiff's injury, but also and primarily to prevent the defendant from being unjustly enriched by its infringing use of the plaintiff's property. *See Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 399, 60 S.Ct. 681, 684, 84 L.Ed. 825 (1940); D. Dobbs, *Handbook on the Law of Remedies* 1 (1973). For the restitutionary purpose of this remedy to be served fully, the defendant generally should be required to turn over to the plaintiff not only the profits

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[9]Prior to 1946, the parent law, like the 1976 Copyright Act, allowed recovery of both profits and damages. Rev.Stat. § 4921, as amended, 42 Stat. 392, 35 U.S.CS. § 70; *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505, 84 S.Ct. 1526, 1542, 12 L.Ed.2d 457 (1964). In 1946 Congress eliminated recovery of the patent infringer's profits, while at the same time making it easier for a patent holder to recover prejudgment interest, in order to ensure the patent holder full compensation. *See* H.R.Rep. No. 1587, 79th Cong. 2d Sess., 1-2 (1946); S.Rep. No. 1503, 79th Cong., 2d Sess., 2 (1946), U.S.Code Cong. Serv. 1946, p. 1386; 92 Cong. Rec. 9188 (1946); *see also General Motors*, 461 U.S. at 654-55, 103 S.Ct. at 2061-62. Although congressional intent in enacting the 1946 amendment to the patent law cannot shed light on congressional intent in enacting the 1909 Copyright Act, the provision of generally available prejudgment interest as a quid pro quo for the unavailability of profits in the patent context suggests the suitability of making prejudgment interest generally available under the 1909 Act where the copyright holder is limited to recovering only profits or damages, but not both. We do not, however, mean to suggest that this analogy should be dispositive in determining whether and when prejudgment interest should be awarded under the 1976 Copyright Act, issues on which we express no opinion.

made from the use of his property, but also the interest on these profits, which can well exceed the profits themselves. *See* D. Dobbs, *supra*, at 169-70; *Fishman*, 807 F.2d at 583-84 (giving examples of the effect of compound interest to demonstrate how "the time value of money works in defendants' favor.") (Easterbrook, dissenting). Indeed, one way to view this interest is as another form of indirect profit accruing from the infringement, which should be turned over to the copyright owner along with other forms of indirect profit. It would be anomalous to hold that a plaintiff can recover, for example, profits derived from the promotional use of its copyrighted material, but not for the value of the use of the revenue generated by the infringement.[10]

We accordingly remand to the district court to enter an award of prejudgment interest.[11] The award should be based on the fifty-two week Treasury bill rate, unless the district court concludes that the equities demand a different rate. *See In re Bloom*, 875 F.2d 224, 228 (9th Cir.1989); *Columbia Brick Works, Inc. v. Royal Ins. Co.*, 768 F.2d 1066, 1071 (9th Cir.1985).[12]

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[10]Prejudgment interest will, of course, be available on both the direct and indirect profits earned by MGM Grand, since both forms of profit are equally attributable to the infringement. *Frank Music I*, 772 F.2d at 517.

[11]Plaintiffs requested prejudgment interest only from the date of the last infringing performance. This is an acceptable date from which to start the running of interest. We need not decide in this case whether an award of prejudgment interest from some earlier point in time, such as the first infringement or date of notice, would be appropriate.

[12]This is the same rate on which postjudgment interest is based. *See* 28 U.S.C. § 1961 (1982).

C. Liability of MGM, Inc.

In *Frank Music I*, we remanded to the district court to determine whether MGM, Inc., MGM Grand's parent corporation, should be liable for the infringement. We held that "[a] parent corporation cannot be held liable for the infringing actions of its subsidiary unless there is a substantial and continuing connection between the two with respect to the infringing acts." *Frank Music I*, 772 F.2d at 519-20.

The district court found that plaintiffs failed to establish such a substantial and continuing connection. According to the district court, the only evidence of a connection between MGM, Inc. and MGM Grand was MGM Grand's use of MGM Inc.'s studio facilities for planning the production prior to the opening of MGM Grand. The district court also noted, as a fact it believed favorable to MGM, Inc., that MGM Grand paid rent for the facilities and bore all the costs associated with the production of *Hallelujah Hollywood*.

The district court apparently did not consider several other important pieces of evidence. During the time of the infringing performances, MGM Grand was wholly owned by MGM, Inc. [R.T. 456] MGM, Inc.'s legal counsel responded to inquiries about the use of *Kismet* in *Hallelujah Hollywood*. [R.T. 488] Donn Arden's office was at MGM, Inc. [R.T. 209], and he was selected for the job with MGM Grand by a representative of MGM, Inc. [R.T. 217]. In addition to drawing patrons to the hotel and casino, *Hallelujah Hollywood* had another purpose: to promote MGM, Inc. and its "Leo the Lion" symbol. [R.T. 228, 242] Only material that had been used in MGM, Inc. films was used in the tribute segments of the show. [R.T. 359-60] Arden actively consulted with personnel from MGM, Inc. in preparing the show. [R.T. 232] MGM, Inc.

made its movie version of *Kismet* available to Arden and Marvin Laird, who viewed it in a production room at MGM, Inc. [R.T. 243, 380] Arden and Laird got clearances for the material they wanted to use in *Hallelujah Hollywood,* including a clearance to use *Kismet,* from MGM, Inc. [R.T. 269, 271, 394] Laird, who worked on the music to Act IV, used material and was assisted by employees from MGM Inc.'s music library. [R.T. 301, 386]

The district court clearly erred in not finding that MGM, Inc. and MGM Grand had a substantial and continuing relationship with respect to the infringing activities. *See Peter Pan Fabrics, Inc. v. Acadia Co.,* 173 F.Supp. 292, 298-99 (S.D.N.Y. 1959) (substantial and continuing connection between defendant and company which actually sold infringing fabric where, *inter alia,* both had same president, defendant owned 70% of the seller's stock and defendant responded to notice of infringement). Therefore, we conclude that MGM, Inc. is jointly and severally liable for the judgment against MGM Grand.

Plaintiffs also argue that MGM, Inc. should be liable additionally for an award of its own profits or, in lieu of such an award, for statutory damages. We disagree. Our conclusion that MGM, Inc. had a substantial and continuing relationship with MGM Grand with respect to the infringement permits us to treat the two corporate entities as the same for purposes of imposing an award of profits. Nevertheless, the downstream corporate benefits to MGM, Inc. from the infringement are simply too attenuated and twoo speculative to support a further award from an apportionment of its corporate profits. The question of whether specific profits were made from an infringement is similar to that of proximate cause in the

tort context: just as there comes a point beyond which effects cannot legally be attributed to an initial tortious action, so too there comes a point beyond which an infringer's profits, from its enterprises as a whole, cannot legally be attributed to a particular act of infringement. The profits of a hotel may well, as here, have a sufficient nexus with an infringing performance in the hotel's showroom to justify attributing some percentage of the hotel's profits to the infringement.[13] The profits of MGM, Inc. from its own interests and activities other than the MGM Grand lack such a nexus. Although MGM, Inc. may have reaped some marginal benefit from the infringement, for example from a slight increase in movie revenue as a result of the advertising value of the MGM Grand, or from a rise in stock value attributable in part to the success of the hotel, the percentage of such profits attributable to the infringing material in Act IV of *Hallelujah Hollywood* is too speculative and the relationship between

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[13]Thus, the result would be the same in this case even if the showroom where *Hallelujah Hollywood* was performed were a distinct corporate entity from the hotel as a whole, provided there was the requisite relationship between the two with respect to the infringement. *See generally Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir.1963) ("When the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials — even in the absence of knowledge [of the infringement] — the purposes of copyright law may be best effectuated by the imposition of liability upon the beneficiary of that exploitation." [Citations omitted]). Similarly, had MGM, Inc. received a more definite, ascertainable financial benefit from the infringement, beyond the profits received by its hotel subsidiary, an award reaching those profits would be entirely proper. Joint liability for profits among interrelated corporate defendants serves the purpose of giving a successful copyright plaintiff its due reward without subjecting that award to the vagaries of corporate structures which, in the context of the particular infringement, should in fairness be ignored.

such profits and the infringement too attenuated to justify the award of additional damages based on any profits received by MGM, Inc.

Plaintiffs argue that, if MGM, Inc.'s profits from the infringement are too speculative, MGM, Inc. must be liable for an award of statutory damages. *See Frank Music I*, 772 F.2d at 520; *Russell v. Price*, 612 F.2d 1123, 1130 (9th Cir.1979) (statutory damages mandatory if neither profits nor damages can be ascertained). This presents a question we declined to reach in *Frank Music I:* whether an award of statutory damages is mandatory against an infringer whose profits are not ascertainable when the profits of another infringer are ascertainable. *See Frank Music I*, 772 F.2d at 520 n. 12. Generally, if either profits or actual damages can be ascertained, an award of statutory damages is discretionary, although the latter type of damages should be awarded if profits or actual damages would be inadequate. *Krofft*, 562 F.2d at 1178.[14]

Statutory damages are available in order to effectuate two purposes underlying the remedial provisions of the Copyright Act: to provide adequate compensation to the copyright holder and to deter infringement. *Frank Music I*, 772 F.2d at 520; *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 232-33, 73 S.Ct. 222, 225, 97 L.Ed. 276 (1952). Where, as here, no actual damages have been proved and both defendants have been held jointly and severally liable for the profits earned by the primary infringer, we conclude the court should exercise its discretion to award statutory damages in lieu of profits only

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[14]If statutory damages are awarded, the amount must be in excess of the provable profits or actual damages. *Krofft*, 562 F.2d at 1178. This rule is a logical corollary of this circuit's rule that under the 1909 Act a plaintiff is limited to recovering only the greater of the infringer's profits or actual damages, but not both.

if they would exceed the profits for which the defendants are jointly liable. In that case, both the defendants should be held jointly and severally liable for the award of statutory damages. *See MCA, Inc. v. Wilson*, 677 F.2d 180, 187-88 (2d Cir.1981). Here we find the award of an aliquot share of MGM Grand's profits plus prejudgment interest adequately compensates plaintiffs for their injuries. Thus, statutory damages are not appropriate in the case of either defendant. The rule we follow serves the purpose of compensation because the plaintiffs are assured an adequate recovery, and it serves the purpose of deterrance because each defendant is jointly and severally liable for the award. An award of mandatory statutory damages against MGM, Inc. effectively would grant plaintiffs a windfall.[15]

D. Liability of Donn Arden

In *Frank Music I*, we held that Donn Arden could not be held jointly and severally liable for MGM Grand's profits unless he acted as a partner or practically a partner of MGM Grand, rather than as an employee or independent contractor. 772 F.2d at 519. On remand the district court concluded that Arden was an employee of MGM Grand, and that his entire involvement with *Halle-*

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[15]Our rationale would not preclude an award of statutory damages against a defendant whose profits are not ascertainable and who is *not* jointly liable for an award of actual damages, statutory damages awarded in lieu of actual damages, or a co-defendant's profits. Because such a defendant has presumably received a benefit from the infringement distinct from that of its co-defendants, an award of statutory damages in lieu of profits would not necessarily give plaintiffs a windfall. At the same time, the absence of joint liability means that the severally liable defendant's conduct would not generally be deterred absent an award of damages.

lujah Hollywood fell within the course and scope of his employment. This finding was not clearly erroneous.

In *Frank Music I*, we opined that if the district court concluded that Arden was an employee, he nonetheless could be held severally liable for any profits he himself earned in connection with *Hallelujah Hollywood*. *Id.* Amounts paid to Arden in salary, however, were not to be considered as profits. *Id.* Although the district court on remand failed to make a factual finding as to whether Arden earned royalties or other profits from *Hallelujah Hollywood*, the record is clear that Arden received only a weekly salary, and did not receive royalties based on the revenues or profits from the show. *See MCA*, 677 F.2d at 186.

Plaintiffs argue that if Arden is not liable for an award of profits, he should be subject to an award of statutory damages. Although statutory damages may be awarded against a defendant who is not jointly liable with other defendants where there would otherwise be no award against that defendant, such an award is not mandatory. In this case it would be inappropriate, because the plaintiffs have been awarded ample compensation from MGM Grand and MGM, Inc., and deterrence would not be furthered by imposing statutory damages against Arden.

Arden consulted MGM, Inc. as to whether he could use material from *Kismet*. He was assured he could. There is no evidence Arden knew or should have known MGM, Inc.'s assurance was incorrect. Whether his use of this material was permissible depended on the content and interpretation of contracts and license agreements within the knowledge of MGM, Inc. and MGM Grand. The error of those defendants in concluding that MGM Grand's ASCAP license permitted the use they and Arden made of *Kismet* was not Arden's fault and Arden received no

benefit from the infringement.[16] In these circumstances, no purpose would be served by sanctioning Arden by an award of statutory damages against him. *Cf. Bradbury v. Columbia Broadcasting System, Inc.*, 287 F.2d 478, 485 (9th Cir.1961); *compare Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d 354, 365 (9th Cir.1947) (greater blameworthiness where employee contributed material to infringing movie, knowing it to have been used previously in plaintiff's copyrighted movie).[17]

E. Pendent Claims

In addition to their copyright claims, plaintiffs asserted pendent state law claims against MGM, Inc. for breach of contract and breach of the implied covenant of good faith and fair dealing. The district court, in its first decision, dismissed these claims based on its factual finding that MGM, Inc. had little or no involvement in the production of *Hallelujah Hollywood*. In *Frank Music I*, we considered plaintiffs' due process challenge to this dismissal.[18] We concluded that the district court did not err

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[16]Because pert of Arden's task was to create tributes to MGM movies, he acted well within the expectations of his employer in creating Act IV with heavy reliance on material from *Kismet*. His situation is thus different from that of a hypothetical employee who eases the demands of his job by plagiarizing the work of others, and therefore could be deemed to have received a benefit from the infringement even if his only financial benefit was in the form of salary.

[17]An award in the amunt of profits actually earned by the employee would be appropriate in any event. Such profits, received through the use of the plaintiff's copyrighted material, should properly be turned over to the copyright owner.

[18]Although the district court had indicated at the outset of trial that it would not exercise pendent jurisdiction over these claims, it subsequently reversed course and permitted plaintiffs to make an

in dismissing the plaintiffs' contract claims. *Frank Music I*, 772 F.2d at 521. At the same time, we remanded to the district court to determine whether there was a substantial and continuing connection between MGM, Inc. and MGM Grand, as a component of the plaintiff's copyright claims. *Id.* at 520.

Our determination that a substantial and continuing connection exists between MGM, Inc. and MGM Grand in regard to the copyright infringement requires us to conclude that the plaintiffs' pendent claims should not have been dismissed on the ground of a lack of such a relationship.[19] However, we nonetheless affirm the dismissal of the pendent claims. Any recovery available to plaintiffs under their contract and breach of implied covenant theories would either duplicate the profits awarded on their copyright infringement claim or, if based on actual damages, be precluded by our affirmance in *Frank Music I* of the district court's finding that plaintiffs failed to prove actual damages from the infringement. *Frank Music I*, 772 F.2d at 513.

F. Attorney's Fees

Both parties appeal from the district court's award of attorney's fees to the plaintiffs. The plaintiffs argue that the district court awarded them too small a fee. The

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evidentiary showing in respect to their pendent claims during the period of post-trial briefing. Plaintiffs did not make a proffer of additional evidence at that time.

[19]Defendants argue that the law of the case should preclude us from reexamining this question. Although issues previously decided by the same court in the same case will not ordinarily be subject to reexamination, considerations of fundamental fairness may in an appropriate case dictate an exception to this rule. *Moore v. Jas. H. Matthews & Co.*, 682 F.2d 830, 833-34 (9th Cir.1982); *White v. Murtha*, 377 F.2d 428, 431-32 (5th Cir.1967).

defendants argue that the plaintiffs are not entitled to a fee at all, and even if they are, the fee awarded was too high.

The decision to award fees, and the amount of fees awarded, are both reviewed for abuse of discretion.[20] *Moore v. Jas. H. Matthews & Co.*, 682 F.2d 830, 838 (9th Cir.1982); *Russell v. Price*, 612 F.2d 1123, 1132 (9th Cir.1979). Plaintiffs in copyright actions may be awarded attorney's fees simply by virtue of prevailing in the action: no other precondition need be met, although the fee awarded must be reasonable. *McCulloch v. Albert E. Price, Inc.*, 323 F.2d 316, 323 (9th Cir.1984) ("fees are generally awarded to a prevailing plaintiff"); *Original Appallachian Artworks, Inc. v. Toy Loft, Inc.*, 684 F.2d 821, 832 (11th Cir.1982); *cf. Russell*, 612 F.2d at 1132. The district court correctly noted that such awards to prevailing plaintiffs serve the purpose of encouraging private enforcement and deterring infringements. The district court did not abuse its discretion in determining that the plaintiffs are entitled to an award of attorney's fees.

We conclude, however, that the district court erred in failing to explain the basis for the amount awarded. Plaintiffs' counsel did not provide the district court with contemporaneous time records. His "reconstructed records" claim 1707.5 hours spent on this case from 1975 through mid-May 1980. This reconstruction is memorialized in an itemized list. In addition, he estimated that he expended another 3500 hours on the case from mid-May 1980 to the summer of 1987, listing the services per-

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[20] 17 U.S.C. § 116 (1909 Act) provides: "the court may award to the prevailing party a reasonable attorney's fee as part of the costs." 17 U.S.C. § 505 (1976 Act) provides for attorney's fees in virtually identical language.

formed during that period but not allocating his time among the various services. Counsel sought compensation at the rate of $250 per hour. Counsel's only explanation for his failure to keep track of seven years of his work was that he "got out of the habit of keeping time on the case."

The district court found that counsel expended much unwarranted time — as much as 300 hours of work where only a single hour was necessary. The court found the facts simple, but noted that complicated legal issues relating to damages were presented. As additional reasons for reducing the amount of the fees award, the court remarked that plaintiffs prevailed on only one of three claims, and that "both sides engendered numerous delays and petty discovery disputes, resulting in the inordinate length of time necessary to resolve this case." The court, "[i]n view of all these factors," concluded that a reasonable attorney's fee was $115,000. The district court made no specific findings either as to the number of hours reasonably spent or what was a reasonable hourly rate.

The trial court correctly refused to accept uncritically plaintiffs' counsel's representations concerning the time expended. *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1385 (9th Cir.1984). Plaintiffs bear the burden of showing the time spent and that it was reasonably necessary to the successful prosection of their copyright claims. The lack of contemporaneous records does not justify an automatic reduction in the hours claimed, but such hours should be credited only if reasonable under the circumstances and supported by other evidence such as testimony or secondary documentation. *Johnson v. University College*, 706 F.2d 1205, 1207 (11th Cir.1983). Time spent by plaintiffs' counsel responding to motions or actions by the defendants should not be excluded from the fee award. "[A]lthough [defendants] had the right to play

hardball in contesting [plaintiffs'] claims, it is also appropriate that [defendants] bear the cost of their obstructionist strategy." *Burgess v. Premier Corp.*, 727 F.2d 826, 841 (9th Cir.1984). The district court blamed both sides for delays and petty discovery disputes, without differentiating those delays and disputes properly the fault of the plaintiffs from those properly the fault of the defendants. *See Moore*, 682 F.2d at 839 n. 10 (no reduction in fee where marginally useful work was necessary response to motions and defenses of the defendants).

In setting a reasonable attorney's fee, the district court should make specific findings of the rate and hours it has determined to be reasonable. *Sealy*, 743 F.2d at 1385. In *Moore*, the district court reduced counsels' fee request because, in the district court's opinion, they "were . . . inclined to produce a large volume of less than useful material." 682 F.2d at 837 (ellipsis in original). We reversed and remanded that award, holding that the district court abused its discretion by reducing counsels' claimed hours by half and allowing less than half their normal billing rate solely on the ground that some of their work was less than useful. *Id.* at 839. Plaintiffs' counsel's inadequate showing has invited substantial discounting of his fee. Still, he is entitled to a reasonable amount. Before determining the appropriate fee, the district court should make a more detailed analysis of the time records presented and a finding as to the reasonable hourly rate. *See Sealy*, 743 F.2d at 1385. We accordingly remand to the district court to reconsider its award and to substantiate whatever fee it awards. In its discretion, it can require the parties to supplement the record.

III. CONCLUSION

We vacate the damages award. We conclude that the proper apportionment entitles plaintiffs to 9% of the direct profits from *Hallelujah Hollywood*. We affirm the district court's finding as to the percentage of indirect profits attributable to *Hallelujah Hollywood*. We correct the award however for a mathematical error. Accordingly, plaintiffs are entitled to $551,844.54 as their share of direct profits and $699,963.10 as their share of indirect profits. We conclude that prejudgment interest should have been awarded, and remand for a calculation of the appropriate amount. We reverse the district court's finding that MGM, Inc. lacked a substantial and continuing connection with MGM Grand with respect to the infringement, and hold MGM, Inc. jointly and severally liable for the award of profits and prejudgment interest against MGM Grand. We affirm the district court's finding that Donn Arden is not jointly liable for the infringement, and decline to hold him severally liable for a separate award of profits or statutory damages. We affirm the district court's dismissal of plaintiffs' pendent claims. We vacate the award of attorney's fees so that the district court may make the necessary findings and recompute the amount to be awarded. We remand to the district court for further proceedings consistent with this opinion.

AFFIRMED in part, REVERSED in part, and REMANDED with directions.

APPENDIX F

ROBERT R. JONES ASSOCIATES, INC.,
Plaintiff-Appellee,

v.

NINO HOMES, MICHELE LOCHIRCO,
Defendants-Appellants,

DIEBELE-GINTER,
Defendant.

No. 87-1494.

United States Court of Appeals,
Sixth Circuit.

Argued June 10, 1988.
Decided Sept. 20, 1988.
Rehearing Denied Nov. 7, 1988.

Arnold Weintraub, Troy, Mich., Lisa M. DuRoss (argued), Birmingham, Mich., for defendants-appellants.

Jerold I. Schneider (argued), Spencer & Frank, Washington, D.C., for plaintiff-appellee.

Before MARTIN, JONES and MILBURN, Circuit Judges.

BOYCE F. MARTIN, Jr., Circuit Judge.

Nino Homes and Michele Lochirco appeal the judgment entered by the district court in favor of Robert R. Jones Associates, Inc. The district court held that Nino Homes and Lochirco had violated the Copyright Act of 1976, 17 U.S.C. § 101 *et seq.*, by copying Jones Associates' registered architectural drawings and by using those unauthorized copies to construct several houses, and the district court awarded Jones Associates actual damages, attorneys' fees, and prejudgment interest, 686 F.Supp. 160. This appeal presents a rather unusual question: whether

the damages recoverable because of the infringement of copyrighted architectural drawings include, not only the losses attributable to the infringer's unauthorized reproduction of the copyrighted article, but also the losses suffered as a result of the infringer's subsequent use of the infringing copies. We affirm the finding of unlawful copying and subsequent use, but we reverse as to attorneys' fees and prejudgment interest.

Robert R. Jones Associates, Inc. designs, builds, and sells custom-made houses. Nino Homes also constructs and sells new houses. Michele Lochirco is the principal shareholder and president of Nino Homes, and he is also the company's chief executive and operating officer.

In 1980, Jones Associates hired an architect to prepare a complete set of architectural drawings, including floor plans and elevations, for a house which was eventually called the "Aspen". These plans were based on design concepts generated by Robert R. Jones, the sole shareholder of Jones Associates. After receiving the completed plans from the architect, Jones Associates constructed two model houses in accordance with the Aspen plans, one in the Grosse Pines subdivision in Rochester, Michigan, the other in the Maplewood North subdivision in West Bloomfield, Michigan. In order to promote sales of its houses in those two subdivisions, Jones Associates distributed to potential buyers brochures which contained abridged floor plans of the Aspen.

In June 1983, one of those potential customers informed Robert Jones that a competing developer was constructing houses that were very similar to the Aspen. Jones subsequently investigated this tip, and, while driving through Nino Homes' Clinton River Valley subdivision, a development less than three miles from Jones Associates' Grosse Pines subdivision, he recognized one

of the houses as being nearly identical to his design. Jones then checked the building permit at the construction site, and from the information contained on the permit, Jones was able to locate the building plans filed by Nino Homes with the Rochester Hills Township. After examining these plans, Jones concluded that his Aspen plans had been copied, so he promptly registered the complete architectural drawings and the abridged floor plans. Immediately thereafter, Jones sent a letter to Nino Homes demanding that construction of the allegedly identical house cease. When Nino Homes denied that its house, which it called the "Riverside", was a copy of the Aspen, Jones Associates commenced this action.

During the trial which followed, Jones Associates offered evidence that Nino Homes had unlawfully copied its Aspen plans. The record shows that Nino Homes had hired an architectural firm called Diebele-Ginter to design a house. Before construction of the house initially designed by Diebele-Ginter had begun, however, Lochirco apparently gave Clifford Ginter, one of the two partners in the architectural firm, a photocopy of the Aspen abridged floor plans contained in the promotional brochure. According to the testimony of Richard J. Diebele, Ginter's partner, Lochirco instructed Ginter to copy these plans for use by Nino Homes. The photocopy allegedly given by Lochirco to Ginter, who died before the case went to trial, was subsequently discovered in Diebele-Ginter's files and introduced into evidence by Jones Associates.

On the basis of this evidence, and other documents which showed that the Riverside design was virtually identical to the Aspen design, the district court concluded that Nino Homes and Diebele-Ginter had infringed upon Jones Associates' copyright. The court then found that,

had Nino Homes not sold seven houses which were built according to the infringing copies, Jones Associates would have sold seven additional houses. Therefore, the court awarded actual damages in the amount of $298,870: $212,550 for presumed profits not earned by Jones Associates because of Nino Homes' infringement, and $86,320 for the profits earned by Nino Homes from the sale of the houses built pursuant to the infringing plans. The district court also awarded attorneys' fees to Jones Associates, but the court limited this award to 5/7ths of the fees incurred because two of the seven houses were completed before Jones Associates' copyrights were registered. The district court subsequently amended its judgment to include prejudgment interest. Lochirco and Nino Homes now appeal, challenging the district court's decision in several respects.[1]

At the outset, Lochirco and Nino Homes contest the court's liability finding. They contend that the district court erred in admitting Diebele's testimony concerning what he was told by his partner about the photocopy which was found in Diebele-Ginter's files. Lochirco and Nino Homes argue that this inadmissible hearsay testimony is the only evidence of their access to the copyrighted work. Therefore, they maintain, they cannot be held liable for copyright infringement. This argument is unavailing for two reasons.

First, we believe Diebele's testimony was properly admitted. The district court held that the challenged testimony, that Ginter told Diebele that Lochirco had given him the photocopy of the Aspen floor plans and had instructed him to duplicate them, was admissible under

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[1]Diebele-Ginter, the other defendant found liable for copyright infringement by the district court, did not appeal that decision.

Fed.R.Evid. 801(d)(2)(D). This subsection provides that a statement is not hearsay if it is offered against a party and is "a statement by the party's agent or servant concerning a matter within the scope of the agency or employment, made during the existence of the relationship." Without question, the statement is being offered against a party; both Lochirco and Nino Homes were named as defendants. And it was made by their "agent"; Ginter was hired by Lochirco to design a house for his company, Nino Homes. Finally, Ginter's statement to Diebele about the origin of the photocopy concerns the very essence of his employment relationship with Lochirco and Nino Homes, and the statement was made during the existence of that relationship. Therefore, the court properly admitted the testimony.

Lochirco and Nino Homes' liability argument also fails for a second reason. They maintain that proof of their access to the copyrighted material is a prerequisite to finding them liable for copyright infringement, and they claim that the arguably inadmissible testimony is the only evidence of such access. Therefore, they continue, the court erred in finding them liable. This argument is fundamentally flawed.

In order to establish copyright infringement, the owner of a valid copyright must prove that the defendant or the person who composed the allegedly-infringing work copied the copyrighted material. *Ferguson v. National Broadcasting Co., Inc.*, 584 F.2d 111, 113 (5th Cir.1978). Because rarely is there direct evidence of unauthorized duplication, the copyright holder frequently proves copying by showing that the defendant or the person who composed the defendant's work had access to the copyrighted material and that the defendant's work is substantially similar to the protected work. *Id.* In short, in

order to prove copying indirectly, the copyright holder need not necessarily prove access on the part of the alleged infringer, so long as there is proof that the person who composed the allegedly-infringing work had access to the copyrighted material.

Here, Jones Associates has clearly proven that Diebele-Ginter, the architectural firm that designed Nino Homes' allegedly infringing plans, had access to the copyrighted work. Access merely means an opportunity to view the protected material. 3 M. Nimmer on Copyright § 13.02[A] (1988). The photocopy found in the firm's files clearly shows that the architects had an opportunity to view Jones Associates' design. Diebele's challenged testimony, which shows how the architects obtained that access, was not vital to the success of Jones Associates' claim. This testimony, which we believe was properly admitted, merely helped the court to apportion relative responsibility for the unlawful conduct.[2] Because Jones Associates has proven that the drafter of the allegedly infringing plans had access to its copyrighted work, because Lochirco admitted during the trial that he made several copies of Diebele-Ginter's infringing plans, and because Lochirco and Nino Homes in this appeal have not challenged the court's finding that their Riverside plans are substantially similar to the Aspen plans, we affirm the court's conclusion that Lochirco and Nino Homes have infringed upon Jones Associates' copyright.

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[2]Given that Lochirco was building houses within three miles of Jones Associates, he clearly had a reasonable opportunity to view the Aspen and see the abridged floor plans contained in the promotional brochure. Therefore, irrespective of the testimony linking him to the specific brochure discovered in Diebele-Ginter's files, the court's conclusion that Lochirco had access to the protected work is clearly correct.

With respect to the amount of actual damages awarded to Jones Associates, however, we must modify the district court's decision. While we do not adopt the position advanced by Nino Homes, we believe the court's award is excessive.

Nino Homes contends that the district court used an improper standard to compute the damages it awarded to Jones Associates. The court held that Jones Associates was entitled to recover the profits it would have earned on the sale of additional houses had Nino Homes not used infringing copies of the Aspen plans to build houses which it sold. Nino Homes maintains that this "lost profits" standard is not the appropriate measure of damages in an action for copyright infringement where the protected work is architectural plans. Rather, Nino Homes argues, the proper standard is the fair market value of the architectural plans at the time of the infringement. We disagree. But to appreciate fully the legal issue posed by this seemingly straightforward argument, one must understand the fundamental differences between copyright and patent laws.

Under 17 U.S.C. § 102(a) (1982), "original works of authorship fixed in any tangible medium of expression" are eligible for copyright protection. A copyright, if awarded, gives its owner, among other things, the exclusive right "to reproduce the copyrighted work" and "to prepare derivative works based upon the copyrighted work." *Id.* at § 106. This power to prevent unauthorized reproduction, though, is inherently limited; 17 U.S.C. § 102(b) provides that "[i]n no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or

embodied in such work." "It is a fundamental maxim of copyright law, [therefore], that a copyright protects 'only the work's particular expression of an idea, not the idea itself.' " *Demetriades v. Kaufmann,* 680 F.Supp. 658, 662 (S.D.N.Y.1988) (*quoting Eden Toys, Inc. v. Marshall Field & Co.,* 675 F.2d 498, 500 (2d Cir.1982)).

The protection of innovative ideas, on the other hand, is the province of patent law. In order to encourage technological advancement, patent law deems "new and useful" ideas as deserving of certain, specific protections. 35 U.S.C. § 101 (1982). Generally, patents are awarded to novel inventions and unique designs. But while a copyright merely confers on its owner an exclusive right to reproduce the original work, a patent gives its owner a far broader right: "the right to exclude others from making, using, or selling the invention" for a specific period of time. *Id.* at § 154. In order to be eligible for this right to exclusive use, though, the applicant for a patent must show that the idea is novel. In contrast, the applicant for a copyright need only establish that the creative work is original. *See generally* 1 Nimmer at § 2.01[A].

Because their work can rarely, if ever, satisfy the more rigorous novelty standard applied to patent applications, architects generally look to copyright law for protection of their creative works. And, although the Copyright Act does not expressly refer to architectural plans, the statute does afford protection to "pictorial, graphic, and sculptural works," 17 U.S.C. § 102(a)(5), which are defined as including "technical drawings, diagrams, and models." *Id.* at § 101. "Consistent with explicit congressional intent, these sections have been interpreted to include architectural drawings." *Demetriades v. Kaufmann,* 680 F.Supp. at 663 n. 6.

Architectural plans, however, "are subject to certain qualifications peculiar to this form of work." 1 Nimmer § 2.08[D][2][a] at 2-105. The copyright statute "does not afford, to the owner of a copyright in a work that portrays a useful article as such, any greater or lesser rights with respect to the making, distribution, or display of the useful article so portrayed than those afforded to such works under the law . . . in effect on December 31, 1977." 17 U.S.C. § 113(b). A "useful article" is one which has "an intrinsic utilitarian function." *Id.* at § 1.01. Because any building or house undoubtedly falls within this definition, architectural plans necessarily depict a useful article and are subject to this restriction. Therefore, the owner of a copyright in architectural plans has statutory copyright protection in the building depicted in those plans only to the extent that such protection was recognized by the law prior to January 1, 1978. The limitations of this protection were initially set by the Supreme Court in *Baker v. Selden,* 101 U.S. (11 Otto) 99, 25 L.Ed. 841 (1879).

In *Baker,* the plaintiff sought copyright protection for a book which the author claimed explained a new bookkeeping system. In addition to material explaining the system, the book included blank forms specifically designed for use with this system. The defendant in the case subsequently published a book with similar forms. The plaintiff then brought suit claiming that, because the defendant's work embodied an accounting system similar to the system explained in the plaintiff's book, the defendant's work infringed on plaintiff's copyright.

The Supreme Court rejected the plaintiff's Claim. The Court essentially held that, "although copyright protection extends to the particular *explanation* of an art or work, it does not protect *use* of the art or work described

by the copyrighted publication." *Demetriades v. Kaufmann*, 680 F.Supp. at 663 (emphasis in original). The distinction the Court drew between "explanation" and "use" stems from the fundamental differences between the kind of protection afforded by a copyright and the protection afforded by a patent. The Court reasoned that "[t]o give the author of the book an exclusive property to the art described therein, when no examination of its novelty has evern been officially made, would be a surprise and a fraud upon the public. That is the province of letters- patent, not of copyright." *Baker v. Selden*, 101 U.S. at 102. In essence, the plaintiff in *Baker* could prevent the unauthorized reproduction of the actual book, but, unless he had a patent, the plaintiff could not prevent others from using the accounting forms, the useful article embodied in the book.

The doctrine enunciated in *Baker v. Selden* is particularly problematic where architectural plans are the copyrighted items because the principal value of such creative works lies in their use in constructing a building. If *Baker* is applied strictly, and the Copyright Act is interpreted as merely prohibiting others from selling copyrighted plans and not from using the plans to construct other buildings, then the statute may not afford the kind of protection necessary to give architects adequate incentive to create new architectural designs. Conversely, giving the owner of a copyright in architectural plans the right to prevent others from constructing buildings substantially similar to the one depicted in the copyrighted plans, without requiring the architect to show that the design is novel as opposed to merely original, would give architects unwarranted monopoly powers with the result that the costs of houses and other buildings would rise unnecessarily. Other courts have also struggled to balance these competing concerns — to remain faithful to *Baker*, yet afford

architects the protection Congress clearly intended to provide them.[3]

This court addressed the issue in *Scholz Homes, Inc. v. Maddox,* 379 F.2d 84 (6th Cir.1967). In that case, the plaintiff had a valid copyright in plans for a split-level house. In order to advertise the house, the developer distributed a copyrighted booklet which contained a drawing of the house. The defendant allegedly took this publicized sketch to an architect so that the architect could prepare plans essentially identical to plaintiff's design. The defendant then used the architect's plans to build his house.

The court in *Scholz Homes* recognized the dilemma caused by *Baker v. Selden* in such cases. The court stated that, if read most literally, "*Baker* would seem to permit the making of [duplicate] plans as well as the construction of [identical] buildings." *Id.* at 86. In order to give architects some protection, however, the court suggested that *Baker* could be interpreted as protecting solely against the selling of infringing plans, but not against their unauthorized use. *Id.* Finally, the court stated that, to give architects even greater protection, *Baker* could be followed only to the extent of holding that the possession of the copyright in the plans gives no exclusive right to construct the depicted building; accordingly, more extensive protection would "be provided by declaring the making of unauthorized copies [and the construction of a building according to the infringing copies] of the plans to be an infringement." *Id.*

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[3]Professor Nimmer framed the issue succinctly: "But are there some works [i.e. architectural plans] which by their very nature may be copied only for purposes of use and not for purposes of explanation, so that to deny liability by reason of copying is in effect if not in theory to deny copyrightability?" 1 Nimmer § 2.18[C] [1] at 2-200.

The *Scholz Homes* court, however, avoided this difficult issue. The court concluded that the brochure which contained the drawing "was copyrighted to preserve its value as an advertising medium and not to give Scholz the exclusive right to copy the plans depicted therein." *Id.* at 87. Therefore, the court reasoned, the district court had correctly concluded that there was insufficient evidence to support a claim of infringement. *Id.* Other courts, however, have tackled the fundamental issue head-on.

In *Imperial Homes Corp. v. Lamont,* 458 F.2d 895 (5th Cir.1972), a builder advertised its houses by distributing brochures which contained a copy of the floor plan from the complete set of copyrighted architectural drawings. After visiting one of the builder's houses and obtaining one of the brochures, a potential customer proceeded to develop a set of drawings for a house which was to be substantially similar to the builder's design. The builder brought an action for copyright infringement and sought to enjoin the customer from using the allegedly infringing plans.

The court in *Imperial Homes* recognized that the *Baker* decision warned against extending a copyright into patent. The court reasoned that "no copyrighted architectural plans . . . may clothe their author with the exclusive right to reproduce the dwelling pictured." *Id.* at 899. The court, though, then stated that nothing in *Baker v. Selden* "prevents such a copyright from vesting the law's grant of an exclusive right to make copies of the copyrighted plans so as to instruct a would-be builder on how to proceed to construct the dwelling pictured." *Id.* Therefore, although the court expressly did "not hold that the [defendants] were in anywise restricted by the existence of Imperial's copyright from reproducing a substantially identical residential dwelling," the court held that, "if copyrighted

architectural drawings of the originator of such plans are imitated or transcribed in whole or in part, infringement occurs." *Id.*

The court in *Herman Frankel Organization v. Tegman,* 367 F.Supp. 1051 (E.D.Mich.1973), reached a similar conclusion. In *Tegman,* a residential builder brought an action for copyright infringement against a competing contractor who admitted copying copyrighted abridged floor plans. In holding the defendant liable for copyright infringement, the court interpreted *Baker v. Selden* as implicitly drawing an important distinction: "A person cannot, by copyrighting plans, prevent the building of a house similar to that taught by the copyrighted plans. . . . A person should, however, be able to prevent another from copying copyrighted houseplans *and using them to build the house.*" *Id.* at 1053 (emphasis added). The *Tegman* court concluded that "[t]his result protects against copying of copyrighted material, yet does not change the copyright act into a patent act and give the person holding the copyright a monopoly on the ideas there expressed." *Id.* at 1054.

Another federal district court recently addressed a similar issue. In *Demetriades v. Kaufmann, supra,* a real estate developer brought a copyright infringement action to enjoin another developer from completing construction of a house which the defendant conceded was being built pursuant to plans which were merely tracings of the plaintiff's copyrighted plans. The court recognized that, under *Baker v. Selden,* although the plaintiff may have a valid copyright in the architectural plans that served as the basis for its uniquely designed house, that copyright "protection simply does not extend to the design or the house itself absent a design patent." *Demetriades v. Kaufmann,* 680 F.Supp. at 665. The court held, however, "that

the unauthorized reproduction of copyrighted architectural plans constitutes infringement." *Id.* Accordingly, although the court refused to enjoin construction of the defendant's substantially similar house, the court enjoined the defendants from further, unauthorized copying of plaintiff's architectural plans, and, of greater significance in the matter before us, the court "further enjoined [the defendants] from relying on any infringing copies of those plans." *Id.* at 666.[4]

The rule which emerges from these cases is that one may construct a house which is identical to a house depicted in copyrighted architectural plans, but one may not directly copy those plans and then use the infringing copy to construct the house. As a logical extension of this rule, we hold that, where someone makes infringing copies of another's copyrighted architectural plans, the damages recoverable by the copyright owner include the losses suffered as a result of the infringer's subsequent use of the infringing copies.[5] Accordingly, the measure of damages in this case is the profits Jones Associates would

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[4] In *Muller v. Triborough Bridge Authority,* 43 F.Supp. 298 (S.D.N.Y.1942), the court held that the copyright in a plan for the construction of an approach to a highway bridge did not give the copyright owner the power to prevent someone else from using the copyrighted plan to build the actual structure. The court in *Demetriades,* though, felt its decision was consistent with *Muller,* presumably because it was unclear in *Muller* whether the defendants had made infringing copies or had merely used the copyrighted original to construct the approach. *See Demetriades v. Kaufmann,* 680 F.Supp. at 664.

[5] The same result would not necessarily obtain if the alleged infringer merely made houses which were substantially similar to the house depicted in the copyrighted plans. Our holding is limited to the facts before us, and our decision rests in large part on the convincing evidence that Lochirco directly copied the Aspen plans themselves

have made on houses it would have sold but for Nino Homes' unauthorized duplication of the Aspen plans and Nino Homes' use of its infringing copies to build its Riverside houses. Therefore, the district court's decision to award Jones Associates $212,550 for profits it would have earned but for Nino Homes' sale of seven houses built pursuant to the infringing plans is correct.

In a copyright infringement action, the copyright owner is also entitled to recover "any profits of the infringer that are attributable to the infringement *and are not taken into account in computing the actual damages.*" 17 U.S.C. § 504(b) (emphasis added). Here, however, where the infringer's profit per house is less than the copyright owner's profit margin,[6] and where all of the infringer's sales were counted as sales lost by the copyright owner, all of the infringer's profits attributable to the infringement were already taken into account in the actual damages awarded to the copyright owner. Therefore, the district court's decision to add Nino Homes' profits of $86,320 to the award of Jones Associates' lost profits constitutes the kind of double recovery clearly precluded by the statute. Accordingly, that aspect of the district court's decision is reversed.

We also believe the district court's decision to award attorneys' fees was improper. In addition to damages, the district court "may also award a reasonable attorney's fee to the prevailing party as part of the costs." 17 U.S.C. § 505. Under section 412(2) of Title 17, however, the court

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and did not merely duplicate the house. *Cf.* 1 Nimmer § 2.08[D][2] at 2-106.

[6] The district court found that Jones Associates earned, on average, $32,700 on the sale of each Aspen. Nino Homes, however, only earned an average profit of $13,280 on the sale of each Riverside according to the court's findings.

may not award attorneys' fees for "[a]ny infringement of copyright commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work." The promotional brochure was first published in July 1981, but Jones Associates did not register its copyrights in the drawings and the floor plans until June 1983. Finding that construction of two of the seven houses was completed after July 1981, yet prior to when the registrations became effective in June 1983, the district court limited the award of attorneys' fees to 5/7ths of the fees incurred.

This proportional limitation, however, is fundamentally at odds with our analysis of *Baker v. Selden* and its progeny. Here, we have held that, although the owner of copyright in architectural plans cannot prevent the building of a duplicate structure, the copyright owner is entitled to recover lost profits if the alleged infringer uses infringing copies of the copyrighted plans to construct the substantially similar building. Critical to our conclusion that this holding is consistent with *Baker* is the fact that Nino Homes copied the Aspen plans before building its houses pursuant to the infringing copies. Conceptually, therefore using those infringing copies to build seven houses did not constitute seven discrete acts of infringement. Rather, the infringing act was the making of infringing plans, and the construction of the houses according to those infringing copies merely multiplied the damages attributable to the infringing act. Moreover, this conclusion advances the statute's goal of encouraging prompt registration, and it is consistent with the decisions of other courts that have addressed the same issue in other contexts. *See, e.g., Whelan Assoc., Inc. v. Jaslow Dental Laboratory*, 609 F.Supp. 1325 (E.D. Pa.1985), and *Johnson v. University of Virginia*, 606 F.Supp. 321

(W.D.Va.1985). Thus, because the copying of the plans, the infringing act, occurred in March 1983, after the copyrighted plans' first publication but before the registrations became effective, the court erred in awarding attorneys' fees.[7]

Finally, we must also vacate the district court's decision to award prejudgment interest. The Copyright Act neither expressly allows nor prohibits awarding prejudgment interest in copyright infringement cases. As we stated in *Bricklayers' Pension Trust Fund v. Taiariol,* 671 F.2d 988 (6th Cir.1982), "[i]n the absence of legislative direction, the Supreme Court, [in *Rodgers v. United States,* 332 U.S. 371, 68 S.Ct. 5, 92 L.Ed. 3 (1947)], directed that the decision to grant or deny prejudgment interest should hinge on whether to do so would further the congressional purposes underlying the obligations imposed by the statute in question." *Id.* at 989. Here, the district court granted Jones Associates' motion for prejudgment interest in order to provide an effective sanction against copyright infringement. We believe the measure of damages applied in this case is clearly sufficient to promote innovation in architectural design and deter unauthorized exploitation of someone else's creative expressions. *Accord Baldwin Cooke Co. v. Keith Clark, Inc.,* 420 F.Supp. 404, 409 (E.D.Ill.1976) (even in case of flagrant infringement "cumulative award of defendant's

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[7] Jones Associates suggests that the award of attorneys' fees is a decision committed to the discretion of the district court and that we may not upset such an award unless we find that the court abused its discretion. Although section 505 provides that "the court in its discretion" may award attorneys' fees, this statutory authority is made expressly subject to other provisions of "this title." Section 504 clearly qualifies section 505. Because the interpretation of these two statutes raises a legal issue, the abuse of discretion standard does not apply.

profits and plaintiff's damages is sufficiently severe [so] as to deter others from like conduct without the need for an award of prejudgment interest").[8] Therefore, we reverse and vacate the award of prejudgment interest.

In sum, we affirm the district court's decision to compensate Jones Associates for the damages it suffered, both as a result of Nino Homes' unauthorized duplication of Jones Associates' copyrighted architectural plans and, more significantly, as a result of Nino Homes' subsequent use of the infringing copies. The awarding of Nino Homes' profits in addition to Jones Associates' actual damages, however, constitutes a double recovery in clear contravention of the statutory language, and it is reversed. We also reverse and vacate the district court's decision to award attorneys' fees and prejudgment interest.

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[8] The Patent Act, unlike the Copyright Act, expressly authorizes the court to award prejudgment interest. 35 U.S.C. § 284. This distinction in statutes governing similar activities suggests that Congress believed that giving the court in copyright infringement cases the discretionary authority to award costs and attorneys' fees would be sufficient to enable the court to enhance the deterrent force of the law in cases of flagrant misconduct.

APPENDIX G

17 U.S.C. § 101 (1970)

Sec. 101. Infringement

If any person shall infringe the copyright in any work protected under the copyright laws of the United States such person shall be liable:

(a) *Injunction* — To an injunction restraining such infringement.

(b) *Damages and Profits; Amount; Other Remedies* — To pay to the copyright proprietor such damages as the copyright proprietor may have suffered due to the infringement, as well as all the profits which the infringer shall have made from such infringement, and in proving profits the plaintiff shall be required to prove sales only, and the defendant shall be required to prove every element of cost which he claims, or in lieu of actual damages and profits, such damages as to the court shall appear to be just, and in assessing such damages the court may, in its discretion, allow the amounts as hereinafter stated, but in case of a newspaper reproduction of a copyrighted photograph, such damages shall not exceed the sum of $200 nor be less than the sum of $50, and in the case of the infringement of an undramatized or nondramatic work by means of motion pictures, where the infringer shall show that he was not aware that he was infringing, and that such infringement could not have been reasonably foreseen, such damages shall not exceed the sum of $100; and in the case of an infringement of a copyrighted dramatic or dramatico-musical work by a maker of motion pictures and his agencies for distribution thereof to exhibitors, where such infringer shows that he was not aware that he was infringing a copyrighted work, and that such infringements could not reasonably have been fore-

seen, the entire sum of such damages recoverable by the copyright proprietor from such infringing maker and his agencies for the distribution to exhibitors of such infringing motion picture shall not exceed the sum of $5,000 nor be less than $250, and such damages shall in no other case exceed the sum of $5,000 nor be less than the sum of $250, and shall not be regarded as a penalty. But the foregoing exceptions shall not deprive the copyright proprietor of any other remedy given him under this law, nor shall the limitation as to the amount of recovery apply to infringements occurring after the actual notice to a defendant, either by service of process in a suit or other written notice served upon him.

First. In the case of a painting, statue, or sculpture, $10 for every infringing copy made or sold by or found in the possession of the infringer or his agents or employees;

Second. In the case of any work enumerated in section 5 of this title, except a painting, statue, or sculpture, $1 for every infringing copy made or sold by or found in the possession of the infringer or his agents or employees;

Third. In the case of a lecture, sermon, or address, $50 for every infringing delivery;

Fourth. In the case of a dramatic or dramatico-musical or a choral or orchestral composition, $100 for the first and $50 for every subsequent infringing performance; in the case of other musical compositions $10 for every infringing performance;

(c) *Impounding During Action* — To deliver up on oath, to be impounded during the pendency of the action, upon such terms and conditions as the court may prescribe, all articles alleged to infringe a copyright;

(d) *Destruction of Infringing Copies and Plates* — To deliver up on oath for destruction all the infringing copies

or devices, as well as all plates, molds, matrices, or other means for making such infringing copies as the court may order.

(e) *Interchangeable Parts for Use in Mechanical Music-Producing Machines*[1]— Interchangeable parts, such as discs or tapes for use in mechanical music-producing machines adapted to reproduce copyrighted musical works, shall be considered copies of the copyrighted musical works which they serve to reproduce mechanically for the purpose of this section 101 and sections 106 and 109 of this title, and the unauthorized manufacture, use, or sale of such interchangeable parts shall constitute an infringement of the copyrighted work rendering the infringer liable in accordance with all provisions of this title dealing with infringements of copyright and, in a case of willful infringement for profit, to criminal prosecution pursuant to section 104 of this title. Whenever any person, in the absence of a license agreement, intends to use a copyrighted musical composition upon the parts of instruments serving to reproduce mechanically the musical work, relying upon the compulsory license provision of this title, he shall serve notice of such intention, by registered mail, upon the copyright proprietor at his last address disclosed by the records of the copyright office, sending to the copyright office a duplicate of such notice.

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[1]Section 101(e) as amended by the Act of October 15, 1971 (85 Stat. 391).

APPENDIX H

17 U.S.C. § 504. Remedies for infringement: Damages and profits

(a) *In General.* — Except as otherwise provided by this title, an infringer of copyright is liable for either —

(1) the copyright owner's actual damages and any additional profits of the infringer, as provided by subsection (b); or

(2) statutory damages, as provided by subsection (c).

(b) *Actual Damages and Profits.* — The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

(c) *Statutory Damages.* —

(1) Except as provided by clause (2) of this subsection, the copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally, in a sum of not less than $500 or more than $20,000 as the court considers just. For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work.

(2) In a case where the copyright owner sustains the burden of proving, and the court finds, that infringement was committed willfully, the court in its discretion may increase the award of statutory damages to a sum of not more than $100,000. In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court it[1] its discretion may reduce the award of statutory damages to a sum of not less than $200. The court shall remit statutory damages in any case where an infringer believed and had reasonable grounds for believing that his or her use of the copyrighted work was a fair use under section 107, if the infringer was: (i) an employee or agent of a nonprofit educational institution, library, or archives acting within the scope of his or her employment who, or such institution, library, or archives itself, which infringed by reproducing the work in copies of phonorecords; or (ii) a public broadcasting entity which or a person who, as a regular part of the nonprofit activities of a public broadcasting entity (as defined in subsection (g) of section 118) infringed by performing a published nondramatic literary work or by reproducing a transmission program embodying a performance of such a work.

Pub.L. 94-553, Title I, § 101, Oct. 19, 1976, 90 Stat. 2585.

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[1]So in original. Probably should read "in".

PROOF OF SERVICE BY MAIL

STATE OF CALIFORNIA
COUNTY OF LOS ANGELES } ss.:

I am a citizen of the United States and a resident of or employed in the City of Los Angeles, County of Los Angeles; I am over the age of 18 years and not a party to the within aetion; my business address is 1706 Maple Avenue, Los Angeles, California 90015.

On December 21, 1989, I served the within Writ of Certiorari in re: Frank Music Corp. vs. Metro-Goldwyn Mayer Inc. in the United States Supreme Court, October Term 1988 No. . . ., on all parties interested in said action, by placing three true copies thereof enclosed in a sealed envelope, with postage thereon fully prepaid, in the United States Post Office mail box at Los Angeles, California, addressed as follows:

David H. Kornblum
1340 Sierra Alta Way
Los Angeles, CA 90069

All parties required to be served have been served.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on December 21, 1989, at Los Angeles, California.

Donna Rodgers

DONNA RODGERS